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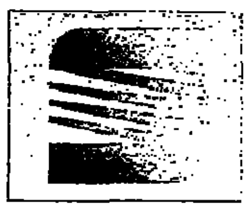

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NTT DoCoMo

The initial public offering by NTT DoCoMo is likely to be the world's biggest, raising about $15bn. But it is being launched at a time of global market volatility.

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WORLD NEWS

Kosovo still under fire after Serbs say offensive is over

Rebel positions in Kosovo remained under heavy fire despite a Serbian statement, apparently aimed at averting Nato air strikes, that government forces had ended their offensive against ethnic Albanian separatists. Page 4

Clinton hopeful on Middle East
President Bill Clinton met Israeli prime minister Benjamin Netanyahu and Yassir Arafat, president of the Palestinian Authority, and said afterwards that there had been "a significant narrowing of the gap" in talks aimed at Middle East peace. Page 6

Europe to review policy on sport
European Commission competition authorities plan to launch a wide-ranging review of their policy towards sport this year, in line with their drive against anti-competitive commercial practices in the sector. Page 4

Russians soldiers receive back pay
Russian prime minister Yevgeny Primakov said the government had paid two months of wage arrears to the armed forces. Warning to Yeltsin, Page 4

Iraq firm on arms inspections
Iraq made clear it had no immediate intention of resuming full co-operation with United Nations weapons inspectors. Page 6

Sudan mobilises in south
Sudan has put the country on a general mobilisation footing to confront what it called an attack by Uganda and Eritrea in southern Sudan.

Vienna starts Holocaust memorial
Vienna laid the foundation stone of a memorial to city's Jews killed in the Holocaust after a delay of two years due to political infighting.

Export zones 'threat to workers'
The rapid growth of export processing zones in response to globalisation poses severe consequences for the 27m people, most of them women, who work in them, the International Labour Organisation said. Page 6

Renewed rioting in Malaysia
Malaysian riot police used batons to arrest several dozen protesters while breaking up a fresh anti-government demonstration.

Tax dispute slows US budget deal
Significant differences between the White House and Congress, most notably over the scale of any tax cuts, stand in the way of this week's negotiations on a budget agreement. Page 12

Kurdish groups in peace moves
The Turkish guerrilla Kurdistan Workers Party (PKK) said it was seeking a ceasefire with the Kurdistan Democratic Party in northern Iraq, where the US is attempting to shore up an anti-Baghdad Kurdish front.

UK financial sector gloomy on euro
Britain's financial sector is better prepared for the launch of the European single currency than business in general, but is significantly less keen on early UK participation, according to a survey. Page 13

BUSINESS NEWS

French industrial confidence hit by market turmoil

French industrialists' expectations of an improvement in business conditions fell in September, a survey shows. The pessimism was blamed on fallout from the Asian and emerging markets crisis. Page 20

The US Federal Reserve's policymakers meet today amid expectations that the central bank will cut rates. Page 20

The French government is poised to sell a further stake in France Telecom, believed to be 12 per cent, despite a glut of telecoms share issues. Page 21; Comment, Page 26; DoCoMo public offering, Page 25

Ericsson, Swedish telecommunications group, plans a reorganisation to make it more responsive to rapid changes in the market and may reconsider plans to move its headquarters to London. Page 21

Asahi Bank and Tokai Bank, two of Japan's largest commercial banks, are forging an alliance that could lead to the creation of the country's second-largest bank, with combined assets of Y61,200bn ($450bn). Page 20; Japan leasing, Page 4

Philippine Airlines is likely to return to the skies after a breakthrough on a labour deal to revive it. Page 22

Liebherr, diversified Swiss manufacturer, plans to set up a plant in Bulgaria to make low-cost refrigerators for sale throughout Europe. Page 24

Matsushita, the world's largest consumer electronics company, may increase production of miniaturised compact discs by opening a plant in Europe. Page 6

Rhodia shares rose as the French specialty chemicals company partly spun off by Rhône-Poulenc said it would sell another polyester business. Page 24

AgrEvo, German agro-chemical company owned jointly by the Hoechst and Schering companies, is buying the North American seed operations of privately-owned agribusiness company Cargill for $650m. Page 21

Hoogovens, Dutch metals producer, withdrew its projection of 39 per cent annual profits growth, saying it was under pressure from imports. Page 24

Credito Italiano will go ahead with the spin-off of its commercial banking activities as the first step of its merger with three Italian regional banks to form the Unicredito banking group. Page 22

Custos, rapidly-expanding Swedish investment company, sold its holding in European construction group Skanska for SKr1.99bn ($253m). Page 24

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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Schröder seeks target zones for currencies

German Chancellor-designate calls for international links to avert recession

By Ralph Atkins in Bonn

Gerhard Schröder, Germany's chancellor-designate, yesterday called for stronger international co-operation to avert global recession as he started building a government coalition with the environmentalist Green party.

A day after the historic poll in which he unseated Helmut Kohl, chancellor for 16 years, Mr Schröder backed plans to set target zones for the world's main currencies.

The initiative to curb excessive speculation – drawn up by Oskar Lafontaine, chairman of his Social Democratic party and likely finance minister – "will be one of the most important tasks of the new government", Mr Schröder said.

His decision to join forces with the Green party followed final results from Sunday's election which would give such a "red-green" alliance a majority of 21 seats in the Bundestag, or lower house of parliament.

The decisive defeat for Mr Kohl's Christian Democratic Union led yesterday to the resignation of Theo Waigel, finance minister for almost 10 years, as head of the CDU's Bavarian sister party the Christian Social Union.

Mr Schröder's victory significantly reinforces the left's dominance in European politics following similar transformations in France and the UK.

In a clear signal of the importance attached to Franco-German relations as the core of European Union stability, Mr Schröder will meet both President Jacques Chirac and Socialist premier Lionel Jospin on Wednesday.

Mr Schröder is sending Rudolf Scharping, the SPD's parliamentary leader, to the UK Labour party's Blackpool conference this week.

If the coalition negotiations starting on Friday succeed, the pacifist Greens would enter the federal government for the first time. However, Mr Schröder set strict terms for a deal, which is unlikely to emerge for a few weeks. Germany's membership of the Nato defence alliance would be unaffected, Mr Schröder said, adding: "The international community can be reassured that Germany will remain a good partner."

No decision has been taken about how many cabinet posts the Greens would fill, although the party is unlikely to have more than three or four out of a total of about 16.

For their part, the Green party's leaders raised few hurdles to coalition talks. Any pact would have to be approved by Green activists at a party conference.

Although reaction in the financial markets to Sunday's result was muted, German business responded nervously. Industry leaders hinted they might boycott an "alliance for jobs" if Mr Schröder went ahead with plans to repeal reforms to sick pay and state pension provisions implemented under Mr Kohl. Mr Schröder said he was not surprised and confirmed his intention to appoint Jost Stollmann, the non-party computer entrepreneur, as his economics minister.

Right regroups, Page 2
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All smiles: Gerhard Schröder is the focus of attention at a news conference in Bonn yesterday. SPD chairman Oskar Lafontaine sits behind AP

F1 shelves flotation to issue $2bn Eurobond

By Patrick Harverson and John Griffiths

The long-awaited stock market flotation of Formula One Holdings was put on hold yesterday. Instead, the company, which controls the television rights to the motor racing world championship, has announced a $2bn Eurobond issue.

The bonds will be backed by revenues from live sports broadcasting. Proceeds will go to the family trust of Bernie Ecclestone, the 66-year-old promoter who controls Formula One. The debt offering is intended as a precursor to a flotation of Formula One Holdings in "two to three years".

Mr Ecclestone had hoped to realise part of his family's holding in the racing business with a flotation last year, but plans ran into difficulties when the European Commission investigated the marketing contracts between Mr Ecclestone's companies and the sport's governing body and television broadcasters. The flotation was also troubled by disagreements between Mr Ecclestone and Formula One teams over revenues sharing and what stake teams should hold in the floated enterprise.

Yesterday Mr Ecclestone's representatives claimed the Commission was close to ending its opposition to the arrangements following several months of clarification by Formula One and Mr Ecclestone. "There are a few minor issues to be resolved but the Commission has got a good understanding of the business now," said Stephen Mullens, a spokesman for Formula One.

Also, the teams recently ended their differences with Mr Ecclestone by signing a new "Concorde" agreement, which sets out the nature of the commercial relationships between the teams and Mr Ecclestone's companies.

His advisers believed the bond issue would be an easier way for him to raise money for his family trust, while also preparing the company for a subsequent flotation, a spokesman said.

The bonds, which will carry a coupon linked to LIBOR, can be redeemed after two years but include a substantial step-up in the interest rate after five years. Morgan Stanley Dean Witter, the bank behind the bond scheme, said this provided an incentive to pay off the bonds through a flotation after the initial two years.

INVESTMENT BANKING PARTNERS TO REVIVE PLAN WHEN GLOBAL MARKET TURMOIL SUBSIDES

Goldman Sachs pulls public offering

By Tracy Corrigan and William Lewis in New York

Goldman Sachs, the last remaining Wall Street investment banking partnership, yesterday pulled its planned initial public offering, citing volatile state of global financial markets. But it said it remained committed to becoming a public company.

The offering could at one point have valued the firm at up to $30bn and would have brought all 189 partners multi-million-dollar stock and cash payouts.

In a statement, Jon Corzine and Henry Paulson, co-chairmen and chief executive officers, said they would propose a new initial public offering once market conditions improved.

"Our executive committee made this difficult decision after giving full consideration to the volatile state of global financial markets and the disproportionately negative impact on the financial services sector," the statement said.

According to people at the firm, the decision to withdraw rather than postpone the offering was made so Goldman would be able to elect new partners. Without the IPO, it might otherwise have been difficult to hang on to ambitious investment bankers.

The firm plans to elect new partners at a meeting in late October. At its last such meeting two years ago, about 40 new partners were elected. The number of new partners may be larger this time, reflecting the growth of the firm. Other staff who were expecting to receive windfalls from the IPO would continue to be paid generously under the partnership structure, the executives said. "The only way people would be disaffected is if they thought we had been disingenuous," said Mr Corzine.

They added that the plan to launch an IPO had been reached from a position of strength. "We were not at any time under any imperative," said Mr Paulson. He added that the firm's capital structure remained strong.

The two men said they remained opposed to any mega-merger with another financial services firm.

"Goldman Sachs remains committed to its goal of being the world's pre-eminent investment bank and securities firm and to matching its capital structure to that mission," the statement said.

It added: "When markets and other conditions improve, our executive committee may propose a new plan of incorporation and public offering to the partnership for its approval.

"We are in a market where it does not make sense to do an IPO," said Mr Paulson, citing market volatility, the decline in financial stock valuations and the fall-out from hedge fund Long-Term Capital Management's rescue last week.

Lex, Page 20

Optimism builds for US interest rate cut

By Gerard Baker in Washington

The Federal Reserve's top policy makers meet today amid intensified expectations in international financial markets that the US central bank will cut interest rates for the first time in nearly three years.

US equity markets moved higher yesterday morning as expectations of a rate cut hardened, although by mid afternoon New York time, the Dow Jones Industrial Average was little changed. Bond prices were slightly lower.

A decision today by the Fed's open market committee to respond to the deepening global economic crisis with an easing of policy would mark a dramatic reversal by the central bank in just a few months.

In July, Alan Greenspan, the Fed chairman, warned that inflation still posed a more serious risk to the US economy than did a slump. But since then, officials believe, the rapid deterioration in the international environment has hit US prospects hard, and last week Mr Greenspan signalled a rate cut was imminent.

Policymakers seem mainly concerned about the threats to the US financial system from the global economic turmoil. While overall US growth prospects have deteriorated recently, the risk of a recession remains slight, with strong consumer spending underpinning robust demand.

But the financial effects of the international crisis seem more of an immediate threat. Last week's rescue of Long-Term Capital Management, the hedge fund facing large losses after adverse movements in international markets, is an example of the risks confronting the US, say some economists.

"The LTCM problem could be just the tip of the iceberg and may turn out to be the primary reason why the Fed will feel compelled to lower rates," said Cary Leahey, of High Frequency Economics, a New York research group.

Market expectations about the scale of any cut are mixed. For the past few years, the Fed has had a cautious approach to interest rate changes, moving its main lending rate – the Fed funds target – in 0.25 percentage-point steps. But many economists say international economic conditions may force the Fed to cut the rate by 0.5 percentage points.

Washington on red alert, Page 8

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8109.87	(+81.10)
NASDAQ Composite	1754.28	(+10.68)
Europe and Far East		
CAC40	3337.64	(+27.05)
DAX	4653.94	(+92.36)
FTSE 100	5093.5	(+32.5)
Nikkei	13909.37	(+185.53)
US Lunchtime RATES		
Federal Funds	5.687%	
3-mth Treas Bills: Yld	4.46%	
Long Bond	105⅜	
Yield	5.14%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(same)
UK: 10 yr Gilt	117.2031	(116.593)
France: 10 yr OAT	108.97	(108.93)
Germany: 10 yr Bund	109.35	(109.31)
Japan: 10 yr JGB	115.32	(115.44)
NORTH SEA OIL (Argus)		
Brent Dated	$14.39	(14.57)

GOLD		
New York: Comex		
Sep	$295.3	(293.6)
London:		
	$293.35	(296.35)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.7057	
DM	1.67425	
FFr	5.613	
SFr	1.3865	
Y	135.525	
London:		
£	1.7041	(1.7025)
DM	1.6806	(1.6711)
FFr	5.6347	(5.6038)
SFr	1.3924	(1.3778)
Y	136.36	(135.365)
Tokyo Close		Y 135.82
Sterling		
DM	2.8639	(2.8451)

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GERMAN ELECTION WINNER GERHARD SCHRODER COULD FACE FORMIDABLE CDU/CSU ALLIANCE UNDER SCHAUBLE AND STOIBER

Right regroups for opposition role

By Tobias Buck in Bonn

Theo Waigel, the German finance minister, yesterday resigned from his post as chairman of Bavaria's Christian Social Union, as the country's ruling rightwing coalition prepared itself for the unfamiliar world of opposition politics.

Mr Waigel made clear he would not seek re-election at a CSU conference early next year. He will be succeeded by Edmund Stoiber, Bavaria's prime minister, who secured a convincing victory in state elections two weeks ago. The announcement – a day after Chancellor Helmut Kohl said he would be stepping stepping down as leader of the Christian Democratic Union – signalled a thoroughgoing change of guard on the German right after Sunday's election defeat.

Mr Waigel served as Mr Kohl's finance minister for almost 10 years, and was instrumental in setting Germany's European and financial policy, particularly in ensuring the conditions for launching the single European currency next year.

Sunday's results were a disaster for Mr Waigel as much as for Mr Kohl. The CSU vote in Bavaria fell below 50 per cent for the first time since the war.

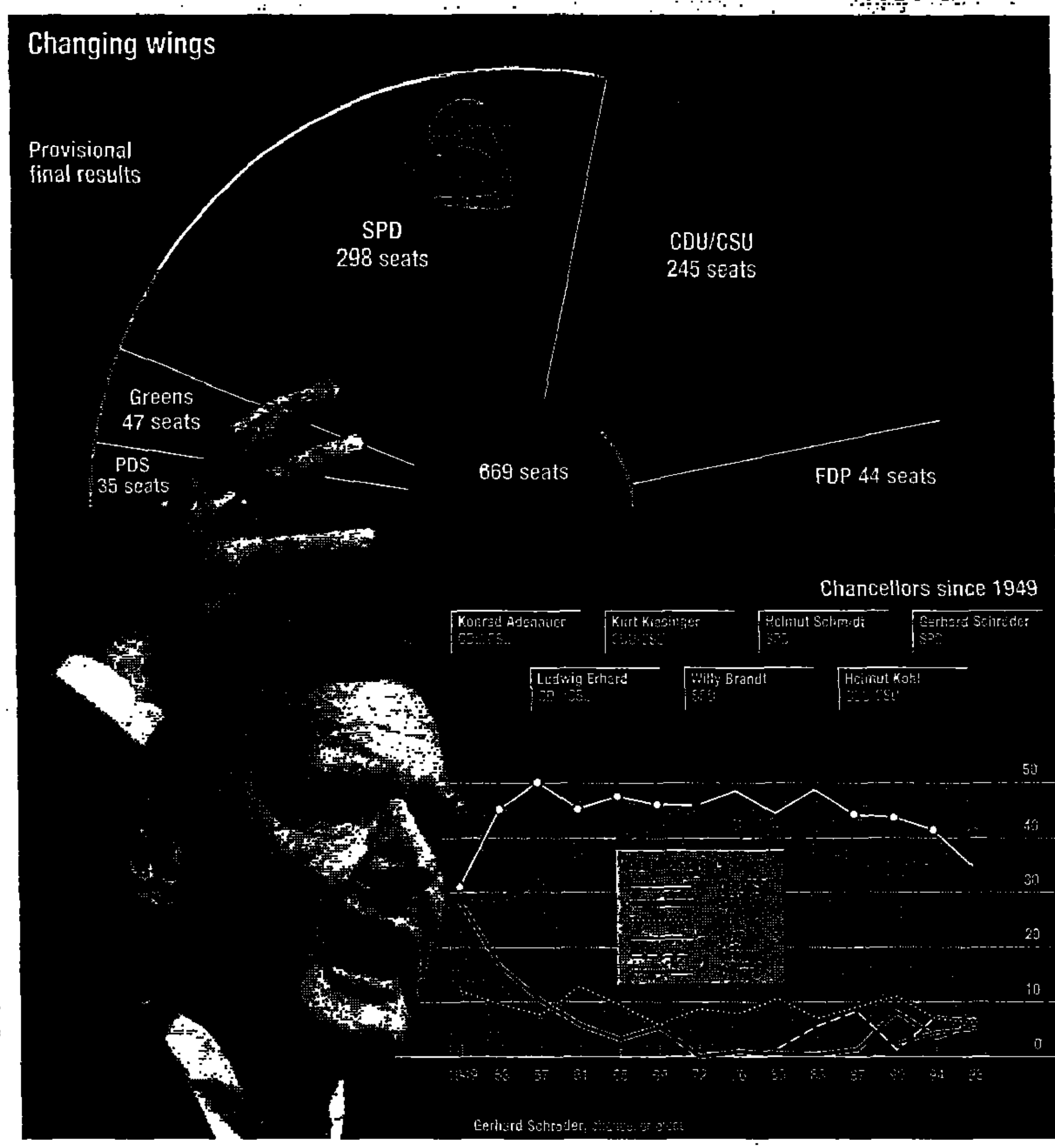
Mr Kohl yesterday declined to comment on who would succeed him as CDU head, but it is believed he will push hard for Wolfgang Schäuble, CDU/CSU parliamentary leader. Mr Schäuble, wheelchair-bound since an assassination attempt in 1990, has long been Mr Kohl's and the party's favourite to succeed him.

Another prospective candidate for the party leadership is Volker Rühe, defence minister. Unlike Mr Schäuble, however, he lacks a regional power base in the party. Mr Kohl yesterday insisted that party and parliamentary leadership should be placed in the same hands, and not split as is the case with the Social Democrats.

A CDU/CSU alliance under Mr Schäuble and Mr Stoiber would – according to opinion polls – be led by Germany's two most popular politicians. That could allow Germany's right-of-centre parties to present a government led by Gerhard Schröder, the Social Democratic winner of Sunday's general election, with a formidable opposition. However, a unified front is not guaranteed. The two have clashed over immigration and the country's stance towards the European Union. Mr Stoiber has presented himself as tough on immigration and crime and sceptical towards further European integration. Mr Schäuble is seen to be more liberal.

Yesterday in Bonn, a weary-looking Mr Kohl found it difficult to hide his disappointment at being the first chancellor in postwar Germany to be ousted at a general election. Mr Kohl rejected suggestions that he would seek office within the European Union or stand as candidate for the German federal presidency. "I will do my duty as an ordinary member of parliament," he said.

Driving on the left? Page 18; Editorial comment, Page 19; Lex comment, Page 20



INDUSTRY WARNING AGAINST NEW BURDENS

Schröder urged to pursue tax reforms

By Graham Bowley in Frankfurt

German business yesterday called on Gerhard Schröder, Germany's newly elected chancellor, to pursue radical tax reform, as industry's most feared electoral outcome – a red-green coalition government – prepared to assume power in Bonn.

Hans-Olaf Henkel, president of the Confederation of German Industry, said the new administration should cut personal and company taxes. He warned against the Green party's proposals for raising energy taxes and ending the use of nuclear power. "They should come up with a tax reform which helps German industry and not put new burdens on it," Mr Henkel said. "Their government programme must look very different from their election programme."

But the warning came as the country's powerful unions called for Germany's new leader to honour election pledges to roll back the minor economic reforms to pensions and benefits introduced by Mr Schröder's predecessor, Helmut Kohl. Unions also called for early moves to tackle unemployment by beginning the tripartite talks involving government, unions and employers, which Mr Schröder promised during the campaign.

Dieter Schulte, trade union association head, said: "We want cuts to sick pay, to workers' protection against dismissal as well as pensions cuts to be reversed."

This issue could prove explosive for the new chancellor. Industry is fiercely opposed to giving up any of these hard-won changes. Dieter Hundt, president of the employers' association, said without these reforms agreement on the economy's future was "unthinkable".

German industry hopes that now Mr Schröder has securely won office he will emerge as a reformer dedicated to improving the competitiveness of German companies. Business has transformed itself in recent years by cutting wage costs and introducing some flexibility in the workplace.

Even so, companies' non-wage labour costs remain among the highest in the world. Industry wants Mr Schröder to cut taxes, pensions and social benefits to help boost competitiveness, stimulate the still-sluggish economy and tackle unemployment, currently at around 4m.

It also demands a modern, privately funded pensions system to replace the current creaking state scheme.

Industry leaders drew comfort when Mr Schröder positioned himself as a moderniser early in his campaign. He installed Jost Stollmann and Walter Riester, two progressive reformers, as shadow ministers who may now join government. But later Mr Schröder appeared to drift back to the left. He appalled industry leaders when, in his manifesto for office, he pledged to repeal some of Mr Kohl's reforms.

Unions call for moves to tackle unemployment

Industry is now waiting for Mr Schröder to show his true colours. Business leaders are hoping he will exploit his strong victory to control the SPD's left and push through reforms, especially now that the SPD controls both the lower and upper houses of parliament. It is this view which appeared to inspire a positive reaction from investors yesterday, with shares in Frankfurt rising.

Industry bosses said yesterday they were prepared to take part in tripartite talks with unions and government – Mr Schröder's so-called "Alliance for Jobs".

But union demands are likely to be unpalatable. Union chiefs want personal income tax cuts to increase wages and so boost consumer spending in the economy, enforced overtime limits, and fines for companies that fail to create enough trainee jobs.

"We want the government to put pressure on employers," said IG Metall, the biggest union.

THE EAST DISSATISFACTION WITH PACE OF ECONOMIC RECONSTRUCTION PROVES THE UNDOING OF HELMUT KOHL

Brusque treatment for unification's engineer

By Frederick Stüdemann in Berlin

When the history of the 1998 German election is written, it will be recorded that voters in eastern Germany unceremoniously dropped Helmut Kohl, the man who eight years previously had engineered unification of the formerly communist region with the west.

Support in the east for Mr Kohl's Christian Democratic Union, formerly the biggest party in the region, fell 11 percentage points to 27.3 per cent as voters made clear their dissatisfaction with the pace and form of economic reconstruction. The biggest beneficiary was the Social Democratic party (SPD), which lifted its eastern vote by 3.6 points to 35.1 per cent, according to the provisional final result. The Party of Democratic Socialism, the former communists, increased its vote by nearly 2 points to 21.6 per cent.

The strong vote for the SPD was decisive in boosting the majority for a national coalition with the Greens as the Social Democrats picked up 13 so-called "over-hang" or supplementary seats in the east. These are additional seats awarded to a party whose share of the direct constituency vote is higher than its share of the overall proportional representational vote.

In Berlin, which next year will become the seat of national government, the map turned red. The SPD took all but four of the direct constituency votes and all the seats awarded through the proportional representation list.

But the real victor in the east was arguably the PDS. Against many predictions, it managed both to retain its four direct constituency seats in east Berlin and poll more than 5 per cent of the national vote thanks to increased support in the east and, slightly, in the west.

Lothar Bisky, PDS chairman, said the result showed "the party is wanted in this country, not just in the east". He said the return of the PDS to the Bundestag, where it will have 35 MPs, was part of a "European normalisation process" in which hard-left parties, such as the reform communists in France and Italy, are represented in parliament. The next goal for the party would be to expand in west Germany and also seek to establish a continental presence in next year's elections to the European parliament.

In Germany, the PDS now has the chance to enter regional government for the first time following elections in the north-eastern state of Mecklenburg-Vorpommern. In state elections on Sunday – won, as were the national elections, by the SPD – the PDS gained 24.4 per cent of the vote. Harold Ringstorff, SPD state leader, is initially talking to the CDU, whose vote dropped more than 7 percentage points, about forming a grand coalition. But he has signalled he will also talk to the PDS.

GERMAN LANGUAGE REFORMS UNDER FIRE

State's voters give last word on grammar

By Frederick Stüdemann in Berlin

Confusion looms in Germany's schools after voters in the northern state of Schleswig-Holstein rejected spelling and grammar reforms aimed at simplifying the language.

In a referendum held in conjunction with the elections on Sunday, 56.4 per cent of voters backed a call for schools to return to teaching according to old rules, abandoned in Schleswig-Holstein two years ago.

The reforms were the result of a difficult and drawn-out attempt by philologists and officials in Germany, Austria, parts of Switzerland, Luxembourg and northern Italy, to update the German language. The reforms include the splitting of unwieldy compound nouns, restriction of the use of the s-called "beta s" and the number of commas and full-stops, as well as the Germanification of foreign words, such as *spaghetti* and *geographie*, which were changed to *spagetti* and *geografie*.

Sunday's decision, greeted with dismay by teachers and textbook publishers, means schools in Schleswig-Holstein will fall out of line with the rest of Germany. Gisela Böhrk, state education minister, said she intended to issue a decree making both the old and new rules acceptable. The reformed rules, however, will not be taught or practised in the state.

Critics of the reforms, who include the federal president, leading writers and many parents' protest groups, see in the changes an attempt to legislate away the character and vibrancy of the German language.

Matthias Dräger, spokesman for the pressure group that forced the referendum vote, said the Schleswig-Holstein decision could open the way for similar moves in other states. But this was rejected by the organisation of state educational and culture ministers, which said that the reforms had been upheld by the constitutional court and that Germany had entered into international commitments with other German-speaking countries and regions.

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CABINET KOHL'S 'GREY FUNCTIONARIES' LIKELY TO BE REPLACED BY INDIVIDUALISTS 'NOT QUITE IN SPD MAINSTREAM'

New team set to be colourful antidote

By Peter Norman and Ralph Atkins in Bonn and Frederick Stüdemann in Berlin


Schröder's people: Jost Stollman, Walter Riester, Michael Naumann and Oskar Lafontaine

When Gerhard Schröder's cabinet eventually meets, it is likely to be a remarkably different body to the departing team of Helmut Kohl.

Mr Kohl chose to surround himself largely with grey functionaries from his Christian Democratic Union who never grew out of their leader's shadow. In drawing up his shadow ministerial team, Mr Schröder, by contrast, has tended to steer clear of established party figures, preferring those who – like himself – are not quite in the SPD's mainstream.

There will be well known faces: Oskar Lafontaine, party chairman, is likely to become finance minister; Rudolf Scharping, the SPD's failed chancellor candidate in 1994, is a possible defence secretary. But when recruiting outside the SPD, Mr Schröder has sometimes proved an impulse buyer of individualists. Three of Mr Schröder's recruits fit this description: Jost Stollmann, Mr Schröder's economics minister designate; Walter Riester, his nominee for labour and social affairs minister, and Michael Naumann, his spokesman on the arts.

Mr Stollmann, 43, the controversial non-party former computer entrepreneur, quickly achieved notoriety for his outspoken support of market-oriented policies. His sharp criticism of Germany's generous but expensive welfare system incurred the hostility of mainstream SPD and trade union activists. One of the wittier *bons mots* of the campaign came from Guido Westerwelle, general secretary of the market-oriented Free Democratic party, who observed that Mr Stollmann "fitted almost as well in the SPD as a penguin in the Sahara".

Mr Stollmann had a brashness that suggested he had known Mr Schröder for years. Not a bit of it. He was recruited in typical Schröder style after the two men first met "two or three years ago in a lively TV discussion show", Mr Stollmann recalled recently. "I called on the politicians for a vision for Germany. I told [Günter] Rexrodt (the economics minister in Mr Kohl's government) that he should explain why I as a young man should roll up my sleeves, be proud of my country and that sort of thing. The discussion had an echo in the media. Schröder was impressed and rang me."

Later, when Mr Stollmann's CompuNet company crossed the DM1bn ($500m) annual turnover mark, Mr Stollmann decided to take an active public position and ran an advertising campaign extolling Germany as a place for investment. "We were a lone voice in the desert. It was on that basis that Mr Schröder rang me up. We met. He said: 'You said we need political leadership. Well?'. Answer: 'Yes, sir.'"

Mr Stollmann, like Mr Schröder is an individualist. "I'm not rooted in the party," he says. "I haven't got an SPD history. But you wouldn't have an independent awkward so-and-so, if I had." He also has an unusual background, having studied in France and the US before founding his own company at the age of 29. His mother was an entrepreneur, "at one time the sole female car dealer in Germany in the period after the war". His father was a senior official in the Düsseldorf finance ministry. Does this mean he has a happy mix of public service and entrepreneurial activity in his genes? He hoots with laughter: "Well with hindsight we can see that Schröder immediately recognised my genetic potential."

While Mr Stollmann is noisy, Walter Riester is a quiet man. The highly respected deputy chairman of I G Metall, the metal workers' trade union, Mr Riester has been hired to make Mr Schröder's "alliance for jobs" project work. The "alliance", bringing together government, trade unions and employers, would have a key role in cutting unemployment.

Mr Riester, whose 55th birthday was on election day, was no intimate of Mr Schröder when recruited as shadow labour minister in April. "I've had relatively little personal contact," he said afterwards. "His approach to me was a surprise." Nonetheless, Mr Riester says: "We think similarly and that is a good precondition to work together."

Mr Naumann, 56, the putative arts minister, has an urbane manner and suave dress sense. His addition to Mr Schröder's team this summer added a little colour from Germany's intellectual and artistic circles. Multi-lingual, well travelled and with a high profile career in publishing, Mr Naumann epitomises Berlin's cosmopolitan, left-leaning world of successful professionals. He is a former journalist who moved into publishing – first at Rowohlt Verlag, which he headed for 10 years, and then in New York at Henry Holt.

Unlike Mr Schröder, Mr Naumann has an impressive educational record, culminating in a doctorate in political science, history and philosophy. But like others of "Schröder's people", Mr Naumann has jolted Social Democratic thinking. His task would be to raise the international profile of German culture – including battling for better treatment for Germany when European Union film finance subsidies are handed out. He has already fuelled controversy by voicing opposition to a Holocaust memorial planned for the centre of Berlin.

The flow of ideas from his team of designated ministers – sometimes coherent and attractive, sometimes disjointed – is beguiling to Mr Schröder. Is Oskar Lafontaine, who has scarcely left Mr Schröder's side since Sunday's vote, the exception?

Aged 55, the Social Democrats' powerful chairman and possible future finance minister is in Mr Schröder's inner camp by right. His grip over the party delivered traditional Social Democrats' support for Mr Schröder's candidacy and Sunday's eventual victory. In government, Mr Schröder, who does not command universal support among the party's traditional socialists, will need Mr Lafontaine to maintain discipline once his political honeymoon is over.

But the left-leaning Mr Lafontaine, a master of forceful oratory, also follows a distinct agenda. He backs seeking international financial market stability through setting target zones for the main international currencies. To create jobs, he favours boosting domestic demand – and a clampdown on illegal employment of foreign workers on wages below German tariff rates.

Mr Lafontaine's thinking betrays his training as a physicist. "There are no final truths in the political economy. But economics has something in common with the natural sciences: that when you have conducted an experiment for 16 years and you haven't obtained the results you wanted, then you have to admit that perhaps you did something wrong. That is why we need a change of government in Germany." During the election campaign, Mr Schröder and Mr Lafontaine kept tight discipline. But Mr Lafontaine's imprint was clear, as was Mr Schröder indebtedness. As the SPD begins the work of governing, it will become clearer whether Mr Lafontaine is truly one of "Schröder's people" – or the other way around.

Bonn's EU funding will soon be tested

By Quentin Peel

Germany's willingness to remain the leading paymaster of the European Union, and its role as chief defender of the EU Common Agricultural Policy, will be tested almost as soon as its new government is installed.

A wide-ranging report on sharing the burden of the EU budget is set to be published by the European Commission in the next two weeks, and it will present the Social Democrat-led regime in Bonn with difficult and potentially embarrassing choices.

The paper will make a series of suggestions on how to control the cost of EU financing for those member states making the highest net contributions – led by Germany, the Netherlands, Austria and Sweden. They are likely to be fiercely opposed by big net recipients, such as Spain.

One option being mooted by the European Commission is to "co-finance" the cost of parts of the CAP, switching the burden back from Brussels to national budgets. Any such suggestion of "re-nationalising" EU policies has been anathema to previous German governments, because it would call into question the very foundation of a common policy.

Another proposal would cap spending for any member state at a particular percentage of gross national product. A third would change expenditure policies to reduce the burden on the main net contributors.

Not only is Germany a vital participant in the debate, as the largest single financier of the EU budget – in 1997, Germany made a net budget contribution to Brussels of almost 62 per cent of all member states' net transfers to the EU budget. It will also hold the chair of the EU in the first six months of 1999, and be required to negotiate a solution.

The question of net financing is a key element in Agenda 2000, the EU's enlargement reform programme. It includes radical reform of the so-called structural funds, involving spending on poorer and more remote regions.

The plan would cut spending in western Europe, to make room for demand from future central and east European members. But every country is fighting to keep its maximum share, with countries like Spain and Portugal in the front line.

The debate has been at a virtual standstill in recent months, waiting for the German election result. Any hopes of rapid progress will depend on a clear line from the new German coalition.

"We have to start during October, or at the latest November, in order to reduce the options at the Vienna summit in December," said one senior diplomat. "Only then can we hope to get it finished by March, when the European parliament goes campaigning for elections. Otherwise it will all be held up for months."

In fact an SPD-Green coalition in Bonn may be more flexible on agriculture. The SPD has traditionally been closer to consumers' than to farmers' interests. But much will depend on the policy of the future German agriculture minister, and his or her ability to resist the arguments of the finance ministry.

Germany set for new economic internationalism

ECB watch

Oskar Lafontaine has already called for talks with Blair and Jospin on policy co-operation in Europe and reform of financial institutions, writes Wolfgang Münchau

The election defeat of German Chancellor Helmut Kohl and the strong likelihood of a Social Democrat-Green coalition will have significant implications for European economic and monetary policy.

Oskar Lafontaine, the SPD chairman and a possible future finance minister, said on election night he wanted urgent talks with Tony Blair, the British prime minister, and Lionel Jospin, the French prime minister, to achieve closer economic policy co-operation in Europe and to help reform international financial institutions.

Germany's new economic internationalism marks a sudden departure from the orthodoxy of the Kohl government, and ends the country's increasing isolation in EU economic affairs. In particular, the SPD is likely to soften Germany's opposition to giving the euro-zone, the group of countries joining economic and monetary union from next year, a greater political role. It is now more likely to agree to European Union proposals to allow the euro-zone to be represented at international meetings.

German Social Democrats support the principle of central bank independence and the pursuit of price stability. But a red-green coalition may still send out different signals to the outside world through a stronger emphasis on growth and employment.

The new government will also have a direct impact on the Bundesbank after Hans Tietmeyer, Bundesbank president and a close associate of Mr Kohl, steps down next summer. As chancellor, Mr Schröder will have the right to nominate his successor.

The two frontrunners for the job are Edgar Meister, a member of the Bundesbank directorate now in charge of banking supervision, and Ernst Welteke, president of the state central bank of Hesse and a member of the Bundesbank's governing council.

Both are considered to be moderates.

The change of presidency will not alter the Bundesbank's policy stance, but it might soften the German central bank's unrelenting efforts to turn the European Central Bank into a Bundesbank clone.

With the departure of Mr Kohl, Wim Duisenberg, president of the ECB, will lose his staunchest political supporter on the European stage.

Instead, Mr Duisenberg and his colleagues will be confronted by a group of centre-left premiers from the three largest member states of the euro-zone – Germany, France, Italy – and the UK, if and when it joins Emu.

The new emphasis on economic growth and employment may also soften Germany's unrelentingly hard line on fiscal consolidation. The Kohl government was the driving force behind the stability and growth pact, which commits Emu members to achieving balanced budgets over the economic cycle.

While the SPD has no stated intention to soften Germany's overall fiscal position, it may adopt a more flexible line on the implementation of the stability pact, in particular emphasising the need for growth alongside stability.

The shift in emphasis from stability to a mixed set of objectives, which includes growth, employment, external and internal stability, could turn out to be the most important long-term implication of the Schröder victory.

This will be a big culture shock for Europe's central bankers, especially those who may find their doctrinaire monetarism is beginning to lose broad-based political support.

Economic indicators for euro-11 countries

	Jul 1998	Jun 1998	May 98	Apr 98	Mar 98	Feb 98	1997	1996
Inflation (annual % change)†	1.4	1.4	1.4	1.4	1.2	1.2	1.6**	2.2**
Unemployment (%)	11.1	11.2	11.3	11.3	11.3	11.4	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	65.9	67.8	71.9	63.7	758.6	667.7
Imports	n/a	n/a	57.8	60.8	64.8	59.0	668.4	594.2
Trade balance	n/a	n/a	8.1	7.1	7.1	4.7	90.2	73.5
	Apr-Jun/ Jan-Mar		Mar-May/ Dec-Feb	Feb-Apr/ Nov-Jan		Jan-Mar/ Oct-Dec	1997	1996
Industrial production (%) (3 mo over previous 3 mo)	0.9		1.0	1.1		1.1	4.1††	0.0††
GDP growth (%)		Q2 1998	Q1 1998	Q4 1997	Q3 1997		1997	1996
Over same quarter last year		1.8	3.4	3.0	2.8		2.5	1.6

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones
†† annual % change
Source: Eurostat

NEWS DIGEST

WATCHDOG CHIEF QUITS

'Financial catastrophe' warning to Moscow

Russia is facing both a "financial and political catastrophe" unless the central bank and finance ministry change their policies, Dmitry Vasilyev, the former head of Russia's Federal Securities Commission, warned President Boris Yeltsin in his letter of resignation.

Mr Vasilyev, who resigned as Russia's capital markets watchdog on Friday, yesterday made a blistering attack on the central bank's plans to set up a two-tier currency market with separate sessions and different rates for exporters and importers. He also criticised the government's proposed equity swaps in lieu of tax payments as tantamount to re-nationalisation.

Victor Gerashchenko, Russian central bank head, proposed the new measures on September 24 as a way of overcoming the crisis in the financial and banking system. **Tony Robinson, Moscow**

BULGARIA

IMF approves $850m loan

The International Monetary Fund has approved an $850m three-year loan for Bulgaria, to help cover the balance of payments deficit and support market reforms launched last year by the centre-right coalition government.

The loan, mainly negotiated before the Russian financial crisis erupted, throws Bulgaria a lifeline at a difficult time for Balkan countries in transition to a market economy.

Ivan Kostov, the pro-market prime minister, said at the weekend that Bulgaria had called off plans to raise up to $300m on international financial markets because of unfavourable conditions. Earlier this year Bulgaria postponed its first eurobond issue because of the Asian crisis.

Growth in gross domestic product is projected at 5 per cent this year, with inflation set to fall to 9 per cent by year-end. **Theodor Troev, Sofia, and Kerin Hope, Athens**

BASQUE REGION

Olive branch from Aznar

José Maria Aznar, the Spanish prime minister, gave the first indication at the weekend that he was willing to make concessions to secure lasting peace in the Basque region after the ceasefire, which began 10 days ago, by the separatist organisation Eta.

Taking his message to the Basque city of San Sebastian, the heartland of separatist sentiment, he offered "generosity" towards Eta and indicated there might be room for discussion with Basque nationalists on the region's "historic rights" without going beyond the bounds of Spain's current constitution.

But he was not specific about deals affecting the 500-plus Eta prisoners, convicted or awaiting trial, who are now dispersed in jails around Spain. **David White, Bilbao**

SWISS REFERENDUM

Heavy vehicle tax backed

Switzerland is set to become the first country in western Europe to introduce a heavy vehicle road tax based on distance driven, weight and emission standards.

Moritz Leuenberger, transport minister, says the support of the Swiss electorate in Sunday's referendum for a new heavy vehicle tax tax, dubbed the LSVA, is a confirmation of public support for a new road pricing policy designed to shift heavy goods traffic from road to rail.

The new tax is designed to curtail the increase in road traffic through environmentally sensitive Alpine passes and finance two new rail tunnels to cope with the expected increase in goods traffic which will be switched from road to rail. The support for the new tax also clears the way for Switzerland to finalise a transport agreement with the European Union. **William Hall, Zurich**

NATO

Greeks, Turks to join exercise

For the first time in 13 years, Greece and Turkey will jointly take part in a Nato exercise in the Aegean Sea. An announcement by the general defence staff yesterday said Greece would take part in the annual "Dynamic Mix", a large 21-day air, land and sea exercise held in the region.

More than 17,000 troops and forces from Britain, Canada, France, Greece, Germany, Holland, Italy, Portugal, Spain, Turkey and the US will take part in the exercise, which will include 62 ships and 170 aircraft.

Last year, Athens took part in "Dynamic Mix", but Ankara boycotted the manoeuvres because Nato forces based in Turkey were not included in the exercise. Nato allies Greece and Turkey have nearly gone to war twice in the past 11 years over disputes on air, sea and seabed mineral rights in the Aegean. **AP, Athens**

EUROPE

Offensive in Kosovo over, says premier

By Guy Dinmore in Stimlje, Serbia

Serbian government forces have ended their offensive against ethnic Albanian separatists in Kosovo province, Mirko Marjanovic, Serbian prime minister, announced yesterday. But despite his statement, apparently aimed at averting Nato air strikes, rebel positions remained under heavy fire.

"Peace reigns in Kosovo... As of today all anti-terrorist activities have ended. They will be renewed only if any new bandit and terrorist activity reappears," Mr Marjanovic told a special session of parliament.

Responding to a demand from the Nato military alliance, the Serbian premier said special police units would be withdrawn to barracks. He also offered an amnesty to ethnic Albanians who turned in their weapons within 10 days and were innocent of rebel activity.

But in the south of Kosovo, near the town of Stimlje, government forces were still pounding rebels of the Kosovo Liberation Army (KLA) with heavy artillery and machine-gun fire. Smoke poured from one village. A police officer said they were "mopping up" last pockets of resistance.

Western diplomats welcomed Mr Marjanovic's statement but were sceptical that the seven-month conflict was over. They recalled that Slobodan Milosevic, president of federal Yugoslavia – Serbia and Montenegro – told European envoys on July 30 that the operation was finished. Since then dozens of villages have been destroyed or damaged.

The KLA said on Sunday it would continue with its war. Western military observers doubted that Serbian forces would be able to prevent the rebels from returning to their bases.

The Serbian declaration of what amounts to a unilateral ceasefire follows stepped-up warnings to Mr Milosevic that his time is running out before Nato intervenes. Diplomats and aid workers say that up to 50,000 ethnic Albanians are without shelter and that a humanitarian catastrophe is unfolding.

European diplomats in particular fear the US will press ahead with air strikes if the government does not keep its word. They argue that Nato intervention will lead to further chaos, boost domestic support for Mr Milosevic and lead to retaliation against foreigners.

A Nato official said yesterday: "It would be good to believe the strong pressure from the international community has been received with the seriousness with which it was issued."

Addressing Serbia's parliament, Vojislav Seselj, a deputy prime minister and leader of the ultra-nationalist Radical party, attacked the US, Germany, the western media and what he called "fifth columnists" within Serbia.

Sadako Ogata, UN High Commissioner for Refugees, meets ethnic Albanian children refugees from Kosovo who have fled to Albania Reuters

EUROPEAN COMMISSION CONCERN TO ENSURE PUBLIC SUPPORT

Competition policy on sports to be reviewed

By Guy de Jonquières and Patrick Harverson

European Commission competition authorities plan to launch a wide-ranging review of their policy towards sport this year, in an effort to bolster their recent drive to crack down on anti-competitive commercial practices in the sector.

The review, initiated by Karel Van Miert, competition commissioner, is intended both to clarify the application of EU rules to sport and to ensure future intervention by Brussels watchdogs commands firm political and public support.

The Commission is currently handling more than 50 complaints involving sport, many of which centre on broadcasting rights. It has recently opened several investigations, including probes into Formula One racing, European football competitions and French authorities' arrangements for allocating tickets for this year's World Cup.

However, officials admit lack of experience has left them struggling to understand the economics of sports, the often complex commercial arrangements in them and how they differ between countries.

"The big danger would be for us to tackle these issues on a piecemeal basis. We need more solid factual, economic and legal clarification of the issues, so that we can formulate a consistent approach," one senior competition official said.

Mr Van Miert and his advisers are also keen to secure the political backing of the full Commission for their policies, because they fear that tougher policing of competition in sport risks stirring up public ill-feeling, which could easily rebound on Brussels. "This will not work if we do not convince people that what we are doing is reasonable," the official said.

Brussels is also anxious to avoid political tensions with EU member states such as Germany, which has decided to exempt sport from its national competition rules.

Mr Van Miert, who aims to co-operate with the Brussels departments responsible for culture and the media in drawing up proposals for applying EU competition policy to sport, is expected to ask the full Commission to debate and approve them in principle by year-end.

The eventual approach may be set out in a policy paper. A competition official said the aim was to "lay down clear-cut markers" before the current Commission's term in office expired at the end of next year.

He said there were no plans to subject sport to special legislation, but simply to ensure it was covered effectively by the same competition rules applied to other EU businesses.

Slovaks must still persuade world to welcome them back

Weekend election was free and fair, report **Robert Anderson** and **Kevin Done**. But questions remain about stability

Slovakia, to its own surprise, successfully held its second free and fair election since independence at the weekend.

Despite lurid fears of a "media bomb" that would discredit the opposition, vote rigging, or even military intervention and the cancellation of the poll, a massive 84 per cent of Slovaks voted peacefully in what diplomats called a "milestone" in the country's democratic evolution.

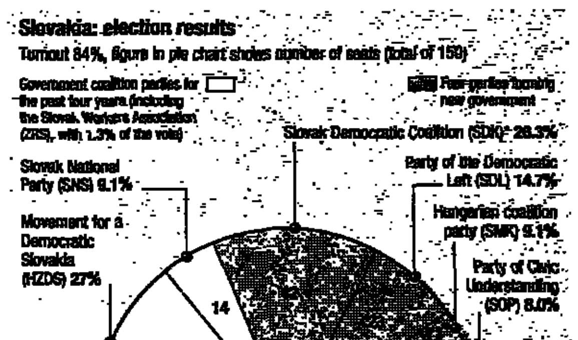
Mikulas Dzurinda, leader of the centre-right opposition Slovak Democratic Coalition (SDK), who looks likely to lead the new government, said in his victory speech: "Slovakia has shown the world it can solve its problems itself and wants to belong to the democratic countries of the world."

A joyful opposition heralded the result as a vote for change and national reconciliation, that would open the way for foreign investment and rapid entry to the European Union. But the fact that there was such earlier doubt over the fairness of the election is proof of the task any new government will have to convince the EU that it has returned to the political mainstream.

The EU will welcome the likely departure of Vladimir Meciar, who took the country to independence with the dissolution of Czechoslovakia and has ruled it for all but nine months of its six-year existence.

His intolerance of domestic opposition polarised the country and gave it the dubious distinction last year of being the only EU applicant to be refused membership negotiations solely on political grounds.

Aided by the rebuff from the EU and Nato, 14 per cent unemployment, rampant organised crime, and privatisation scandals, last weekend the four opposition parties won 58 per cent of the vote and 93 seats in the 150-member parliament.



The four parties will this week begin talks on forming a government and hope to announce a cabinet and programme before parliament meets, probably at the end of next month.

But the EU will want to see how stable this coalition is before they reconsider Slovakia's application. One worry is that the former communist Party of the Democratic Left (SDL) holds the balance of power in parliament but has been seen as the weak link in the opposition ever since it flirted with supporting Mr Meciar's troubled coalition in 1996.

Jozef Migas, SDL leader, insists, however, that his party will not be lured away by Mr Meciar's nationalist Movement for a Democratic Slovakia (HZDS), though he says the negotiations will be difficult and big differences exist with the SDK's right wing, particularly over privatisation. "Our party is strongly against the privatisation of the strategic industries, including the banks," he says.

Opposition politicians are nevertheless confident that the danger of letting Mr Meciar back in will keep them together. They also believe an investigation of his government's illegal actions and suspicious privatisations will block his return.

Yet this risks widening the political polarisation that has made diplomats cautious over a rapid return to the EU fast track. Any new government will need to adapt itself quickly to the state Mr Meciar has built, in which both the administration and private industry are filled with HZDS placemen.

The opposition will purge the bureaucracy but hopes to convince a suspicious business community that Mr Meciar had led them up a nationalist blind alley. "Business wants the EU and they know that our party guarantees it," says Jan Carnogursky, leader of the Christian Democratic Movement, linked to the SDK.

Business may be receptive to this because of the deteriorating state of the economy, which will pose politically difficult questions for the government and could damage the country's readiness to join the EU.

Strong economic growth of about 6 per cent in recent years has been built on rapidly growing public deficits and foreign debt. This boom has led to a current account deficit of $1.1bn in the first half, 11 per cent of GDP, and prohibitive interest rates. Analysts expect a devaluation and a halving of growth next year.

The SDK ambitiously has pledged to double average salaries in four years and raise pensions to half the average income. But the party's economic experts privately acknowledge that they will have to make deep cuts in public spending.

If a new government steadies the economy, keeps together and lowers the political temperature there is still a chance of catching up with the six countries chosen for fast-track negotiations with the EU, though it is now too late to be included in the first wave of Nato entrants next year.

However, there are doubts over when the EU will reassess the country's progress. Western diplomats say that though the EU will be keen to reward Slovakia, it is unlikely it will reconsider its case until the middle of next year at the earliest. Moreover, one warns, the EU may even decide to wait for a wave of new entrants rather than welcome improved performers one by one.

ASIA-PACIFIC

KOREA FINANCE CAPITAL ADEQUACY BOOST

Seoul acts to stem bad bank debts

By John Burton in Seoul

South Korea has eliminated 60 per cent of non-performing loans held by commercial banks, the government said yesterday.

But analysts believe that the government has underestimated the size of the bad debt problem as banks continue to lend to the big troubled conglomerates that may yet go bankrupt.

The finance ministry said it bought Won39,000bn ($28bn) worth of bad loans at a discount, while it provided Won11,900bn to recapitalise banks and help them meet the capital adequacy ratio of 8 per cent set by the Bank for International Settlements.

Lee Kyu-sung, the finance minister, said helping the banks to meet a higher capital adequacy ratio of 10 per cent would relieve a credit crunch that has caused more than 8,000 small companies to fail this year.

The banks have been reluctant to make new small business loans as they struggled to meet the BIS ratio. "The resulting credit crunch and corporate bankruptcies fed into a cycle of increased loan losses, thereby worsening the already tenuous credit situation," he said.

The government focused financial aid on banks that have been involved in mergers to reduce capacity in the overcrowded sector, with the number of banks expected to be cut in half to 15 by the end of 1998.

But while reducing lending to small businesses, banks have continued to roll over loans to debt-heavy conglomerates, or *chaebol*, on fears that allowing them to go bankrupt would result in new large loan losses.

"Frankly, Korean banks feel lending to the *chaebol* is safer than to small businesses because the banks have difficulties in assessing credit risk," said Kim Jun-il, senior counsellor at the finance ministry.

Analysts say such practices are increasing the exposure of the banks to bad debts and will force the government to spend double its estimate of Won64,000bn to buy bad loans and recapitalise the banks.

ING Barings, the investment bank, recently warned that the *chaebol* would have growing problems in refinancing their debts over the next year because of weaker cash flows as global and domestic demand drops.

Mr Kim said the banks will take a tougher stance on lending to the *chaebol* because of strict conditions attached to the state bail-out funds and tighter government supervision. "The government is well aware of the moral hazard problem."

He suggested the banks might swap debt for equity in the *chaebol* as part of a corporate restructuring programme, which the government is promoting along with the reform of the financial sector.

● Customers rushed to withdraw money from banks in response to a planned strike by bank workers today in the run-up to one of the biggest holiday periods in Korea.

Workers at nine banks were set to go on strike at midnight to protest against planned redundancies among recently merged banks. Bank officials have estimated that up to half of the jobs at the nine banks may be eliminated as a result of the mergers.

Some bank branches reported that cash reserves were exhausted as customers withdrew funds in preparation for the four-day Chusok (thanksgiving) festival, which begins on Saturday.

JAPAN LEASING FAILURE IS UNLIKELY TO BE THE LAST, OR THE BIGGEST

Belly-flop for Japanese banking system

By Paul Abrahams and Michiyo Nakamoto in Tokyo

Kiichi Miyazawa, Japan's finance minister, had gone on record as saying he preferred a soft landing for the troubled banking system. But the resounding thud on Sunday as Japan Leasing belly-flopped raised suspicions it might have landed somewhat heavily. Indeed, the affiliate of Long Term Credit Bank of Japan revealed it was seeking protection from creditors in what is likely to be the country's biggest ever bankruptcy.

The scale of Japan Leasing's failure – it has Y2,180bn ($16.1bn) of debts – is all the more staggering given that, only a couple of months ago, few in the Japanese financial community even knew of the company's existence. But its collapse is unlikely to be the last, nor the biggest.

During the so-called "bubble economy" in the 1980s Japan Leasing diversified from traditional leasing into commercial lending, providing loans that were normally backed by property-related collateral. Like many other lenders exposed to the collapsed property market, Japan Leasing was left weighed down by huge bad debts.

The reason it failed earlier than any of the other institutions in a similar plight was the liquidity crisis at LTCB, its parent, and opposition parties blocking plans by the ruling Liberal Democratic party to bail it out with Y520bn of public money. So the LDP was unable to save either the leasing company or LTCB itself, which is to be nationalised. LTCB's non-performing loans will be put in a separate organisation for disposal while the good loans will be sold.

The failure of Japan Leasing – and the eventual demise of LTCB – will directly and adversely affect the LDP's political and financial supporters. Agricultural co-operatives – important institutions in the LDP's electoral heartland – had lent Y120.6bn to Japan Leasing. And when the affiliate's non-performing loans are called in by the receiver, many construction groups which are big financial contributors to the LDP will be under pressure to pay up.

Huge issues remain. A committee is to be set up to decide which banks are solvent and which do not deserve recapitalisation. But it is unclear who will staff the committee and what criteria they will use.

The immediate repercussion of Japan Leasing's collapse is that a host of financial institutions will have to announce significant write-offs in coming days. Already Mitsubishi Trust has admitted that it lent Y145bn to the leasing group. Sumitomo Trust says it may not recover all of its Y135bn loans, while Norinchukin, the umbrella organisation for the agricultural co-operatives, had extended Y120bn. LTCB itself has about Y255bn of loans outstanding to its affiliate.

Those least able to afford the losses are the agricultural co-operatives. "The fact that Japan Leasing's debts would not be forgiven after all is likely to have caught the co-operatives by surprise," says Yushiro Ikuyo, of Commerz Securities in Tokyo.

Almost certain to follow Japan Leasing are Japan Landic and Nippon Enterprise Development, LTCB's other leasing companies. A number of Japan's top 18 banks are also vulnerable.

The biggest danger, says James McGinnis, banking analyst at ING Barings, is that the banks' senior executives, who face losing their livelihoods and even pensions, could become even more brutal in scaling back their loan books: "That would exacerbate an already debilitating credit crunch and have a devastating effect on the economy."

However, some believe that the most vulnerable may be smaller institutions. "Don't focus on the big 18," says Brian Waterhouse, banking analyst at HSBC. "There are a host of regional banks, credit co-operatives, and agricultural co-operatives that are in desperate shape. Some have no capital, others' stated non-performing loans are at an intolerable level given their assets, and there are more whose unreserved bad loans are so great, and their profits so poor, that they will never trade out of trouble. There's a real risk that if one goes down, there could be a run on the others."

Many believe Japan's banking system is beyond reform. "A major crisis is required for the government to realise the gravity of the situation," says Mr Waterhouse. "LTCB was not a major crisis. But there's little doubt there's one coming. We're looking at a time-bomb."

Beazley employs 'tax on food' weapon to belabour Howard

Gwen Robinson reports the Labor leader acknowledges his party cannot be certain of victory

The campaign for Australia's general election on Saturday took a vaudevillian turn yesterday as Kim Beazley, leader of the opposition Labor party, kissed a gigantic wet fish in Sydney's inner-city fish markets.

"Peter Costello! Time for you to go to bed," he said, referring to the treasurer, the government's top economic minister, as he shoved the fish into a packing box.

Labor used the backdrop of the country's largest fish markets to attack the goods and services tax (GST) proposed by John Howard, the prime minister. Signs emblazoned "Plus 10% GST!" were tucked neatly under the store's seafood displays as Mr Beazley played on the concerns of ordinary Australians.

"What I'm dealing with here is the fish that John Howard will tax... We're bringing this campaign back to the basics – the GST is an unfair tax on food," he said.

Mr Howard's conservative Liberal-National coalition centred its five-week election campaign on tax reform and economic management, promising personal income tax cuts worth A$13bn (US$7.65bn) to sweeten the proposed 10 per cent GST.

But in a country that has never experienced a consumption tax, voters have signalled confusion and fear over Mr Howard's proposals. Opinion polls have mostly given Labor a small lead over the coalition. The latest poll, published today, reversed their positions, giving the coalition a narrow lead over Labor.

Even Mr Beazley has acknowledged that Labor's recent surge of support has been largely confined to its own "safe-seat" electorates. To win, the opposition needs a national swing of at least 3.7 per cent, or at least 27 extra seats in parliament's 148-seat lower house. "The mathematics are against us," he said yesterday.

But nearly all polls have shown growing opposition to the GST plan and concerns that future governments could increase the tax. Analysts say there could be a repeat of the 1993 elections, when the Liberal-National coalition unsuccessfully campaigned on a GST proposal.

Mr Beazley has been handed a powerful weapon. "Many countries choose to exempt food from their consumption taxes," he said. "John Howard has chosen to include it. Yet, no area impacts more on those who are less well off than the impost on food. It's a tax as well, therefore, on health, because there is no question that fresh food is better for you."

Mr Howard, however, accused Mr Beazley of running a "scare campaign". He said voters should consider the wholesale taxes which would be abolished under GST. "The cost of everything is not going up by 10 per cent... indeed, the average cost is only going to rise by about 1.9 per cent." The truth, as one commentator said yesterday, is "somewhere in-between".

Political analysts said the election remained "too close to call" and would probably be determined by secondary "preference" votes, which eliminate least-preferred parties on voters' ballot sheets – a factor which has maintained the influence of One Nation, the populist party led by Pauline Hanson, the independent MP.

Mr Beazley also raised the worsening crisis in the southern state of Victoria, where a gas plant explosion which killed two and injured eight last Friday has crippled gas supplies and forced industries and business to shut down. In a powerful appeal to angry Victorians who this week began to demand compensation for the suspension of power supplies in the crisis, Mr Beazley said tens of thousands of workers who had been stood down temporarily as a result should be entitled to special government assistance.

Victoria's Liberal state government was last night forced to concede the crisis might continue for "weeks" until damaged pipelines could be repaired.

Kim Beazley recruits 16-month-old James McLaren on the election trail in Sydney yesterday Reuter

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MIDDLE EAST PEACE PROCESS US PRESIDENT EXPECTS PROGRESS BY MID-OCTOBER

Clinton says the gap is narrowing

By Stephen Fidler in Washington and Judy Dempsey in Jerusalem

President Bill Clinton said yesterday there had been "a significant narrowing of the gap" in talks aimed at Middle East peace.

He was speaking at the White House after meeting Benjamin Netanyahu, the Israeli prime minister, and Yassir Arafat, president of the Palestinian Authority.

Flanked by the two men, Mr Clinton told reporters: "I believe there has been progress in all major areas." But he declined to enlarge on this. He said an agreement was possible by mid-October that could lead to so-called final status talks, which include the status of Jerusalem, division of water resources, the return of Palestinian refugees and definition of borders.

However, there was substantial work to be done, and towards this end he would send out Madeleine Albright, secretary of state, and Dennis Ross, the special US envoy to the Middle East, to the region in early October. Mr Netanyahu and Mr Arafat would then return to Washington later that month.

It was the first time the three had met in more than a year. Israeli diplomats said the basis for agreement would be the withdrawal by Israeli forces from a further 13 per cent of the West Bank – 3 percentage points of which would be declared a nature reserve and remain under Israeli security control.

In return for the further pullback, the Palestinians were to pledge greater efforts to combat terrorism. The Palestinian Authority is in full or partial control of 29 per cent of the West Bank already.

Yesterday's meetings were to be followed by a speech in New York to the United Nations by Mr Arafat, who returns today to Washington for bilateral talks with Mr Clinton.

Both Mr Arafat and Mr Netanyahu met Mrs Albright at the weekend. Mrs Albright then talked to Arab leaders.

Mr Arafat's veiled threat to declare unilaterally a Palestinian state next May – when the five-year deadline for the current Oslo peace process expires – has been one factor encouraging the US to intensify efforts to secure agreements between the two sides.

With Mr Clinton facing domestic political problems, his administration could use another foreign policy "success" to match that in Ireland. Last May, fearing the domestic political reaction in the US, Mr Clinton undermined an ultimatum delivered by Mrs Albright to the Israeli government. According to diplomats, this insisted on a withdrawal from 13 per cent of the West Bank territory taken in the 1967 Six-Day War.

Editorial comment, Page 19

Benyamin Netanyahu, left, with Madeleine Albright and Yassir Arafat in New York yesterday. The secretary of state is to visit the region before the two leaders return to the US later next month

Another Kenyan bank buckles

By Mark Turner in Nairobi

A fourth Kenyan bank was threatened with closure yesterday and analysts predicted up to three more could follow.

The central bank was in talks with the Prudential Bank after failing to meet clearing obligations last Friday, the same problem that caused it to place Asian-owned Bullion Bank, Trust Bank and Reliance Bank under statutory management this month.

Trust Bank, by far the largest of the troubled banks with branches in Tanzania and Uganda and deposits of more than Ksh9bn ($150m), suffered a run this month following press reports of financial mismanagement.

But Micah Cheserem, central bank governor, and analysts were confident the crisis would not spread to Kenya's stronger institutions. "This is basically a weeding out of people not running their affairs properly," said one senior Kenyan banking analyst. "In fact, a flight to quality has helped the larger banks."

The top 10 of Kenya's 53 banks have 80 per cent of the market and assets of about Ksh400bn.

By contrast, many of the country's 30-35 small banks have a low capital base and narrow investment strategy, and could face substantial difficulties in coming months.

Estimates suggest that 15 banks may not be able to comply with a new minimum capital requirement of Ksh200m starting next year.

The shake-out has given fresh impetus to central bank efforts at encouraging mergers and increasing capitalisation among Kenya's smaller banks, which also suffer from a lack of qualified management.

A number of banks are suspected of being little more than fronts for powerful businessmen or conduits for fraudulent deals.

COMMONWEALTH FINANCE MEETING

Co-operation by regions can help in crises

By Robert Chote, Economics Editor, in Washington

Formal mechanisms for regional co-operation have an important role in preventing and managing financial crises, according to a report before Commonwealth finance ministers, who begin their annual meeting in Ottawa today.

The report argues that regional arrangements should play a "mezzanine" role between national authorities and global institutions, such as the International Monetary Fund. It recommends that Japan's proposal for a $100bn Asian monetary facility – which was abandoned under pressure from the IMF and US Treasury – should be resurrected and explored for other regions.

"The absence of suitably designed regional arrangements (except in Europe) in the present array of institutions, facilities and instruments which exist to combat such crises, reflects a serious gap in the international financial system," the report argues.

Commissioned by the ministers at their last annual meeting in Mauritius, the report was drawn up by a group of academics, central bankers and diplomats, chaired by Chris Liebenberg, former finance minister of South Africa.

The arrangements should be tailored to the needs of each region and will be most effective when the participating countries have a clear regional identity, the group argues. Officials accept that this will leave some important emerging market economies as "orphans" reliant on the global institutions.

Regional groups should scrutinise the policies of their members to provide an early warning of impending difficulty. They need "the institutional ability to exert peer pressure in inducing essential policy changes and course corrections swiftly and effectively". They also need to guard against rounds of competitive devaluation and "beggar-thy-neighbour" policies that leave everyone worse off.

The groups need the capacity to intervene in financial markets to restore confidence and prevent currencies going into freefall, as well as the ability to provide post-stabilisation liquidity and long-term finance in parallel with the World Bank and regional development banks. These regional development banks provide institutional structures to which the new arrangements could be attached.

To head off crises such as that in Asia, the report recommends that regional networks and lines of credit be established "as a form of constructive contingent arrangement". Japan's proposal for an Asian monetary facility should be revived in the absence of an effective international lender of last resort.

In the longer term regional currency blocs could be created, helping countries withstand speculative pressures.

"The existence of regional currency zones would provide more formal arrangements for countries to pool foreign exchange reserves as well as integrate banking and capital markets, and perhaps enter into monetary unions," the report suggests. The Eastern Caribbean currency union and Europe's putative single currency provide precedents for this approach.

Aside from its proposals for regional co-operation, the report recommends greater transparency in currency trading and hedge fund activity. It suggests that governments could require large international banks to buy call options on the existing value of the dollar against the local currency as a condition for granting banking or securities licences.

UN SANCTIONS BAGHDAD REFUSES TO RESUME CO-OPERATION WITH UNSCOM

Iraq rules out more arms inspections

By Laura Silber at the United Nations in New York and Roula Khalaf in London

Iraq yesterday made clear it had no immediate intention of resuming full co-operation with United Nations weapons inspectors.

Tariq Aziz, Iraqi deputy prime minister, yesterday met Kofi Annan, UN secretary-general, to discuss proposals for a comprehensive review of UN policy toward Iraq. He said he would co-operate with the UN but dashed any hopes of resuming the inspections – dismissing them as "provocations".

Iraq is trying to sideline the UN mission to dismantle Iraq's arsenal of proscribed weapons (Unscom) which it insists is dominated by Washington.

Mr Aziz said: "We are co-operating with the secretary-general, we are also working with the Security Council. I am here, Minister Sahaf is here... so this is co-operation."

Mr Annan, according to UN officials, was discouraged after the meeting. Iraq suspended co-operation with Unscom last month.

In an effort to break the deadlock over weapons inspections, Mr Annan and Security Council ambassadors have been considering a comprehensive review of UN policy towards Iraq.

Mr Annan and the Security Council have said a comprehensive review would not take place until Iraq returned to full compliance. But Mr Aziz yesterday insisted the "idea of a comprehensive review is not a reward to be given to Iraq and then Iraq has to make concessions before such a review takes place.

"When the review is conducted in an honest and professional manner, we hope that it will lead to the lifting of sanctions," he said.

"The review is a legal and moral obligation by the Security Council itself," said Mr Aziz, who described his hour-long meeting as "professional, cordial and constructive".

The UN imposed an oil embargo after Baghdad invaded Kuwait in August 1990. It can be lifted only when the UN certifies that Iraq has satisfied UN weapons inspectors.

Mr Aziz said: "Iraq has complied with UN resolutions for seven-and-a-half years," while the Security Council had not taken any step to reduce or lift sanctions according to the letter of its own resolutions.

For Baghdad, the aim of a comprehensive review would be to prove that some files – on nuclear arms and ballistic missiles – should be closed, and that Unscom's work on these fields should shift to monitoring rather than inspection.

The US and UK have strongly resisted any attempt to close disarmament files, worried this would set a dangerous precedent and lead to pressure to close the more difficult remaining files on chemical and biological weapons.

Indeed, although the International Atomic Energy Agency reported this summer that continuing inspections are providing diminishing returns, the US insisted the file should remain open.

RECORDING TECHNOLOGY CULT FORMAT FINDS MAINSTREAM FAVOUR

Matsushita may step up MiniDisc output

By Alice Rawsthorn in London

Matsushita, the world's largest consumer electronics company, is considering increasing production of MiniDisc systems, the miniaturised compact discs with a recording facility, by opening a manufacturing plant in Europe.

MiniDisc got off to a slow start after its commercial launch in the early 1990s, but sales have increased sharply over the past year as hardware prices have fallen and more pre-recorded software has become available.

Matsushita's decision to step up production affirms that MiniDisc is now regarded as a successful product with mainstream appeal within the consumer electronics industry. It also marks the end of a long-running battle between Matsushita and Sony, its arch-rival and the inventor of MiniDisc.

Sony launched MiniDisc in direct competition against digital compact cassette (DCC), a miniaturised cassette tape developed jointly by Matsushita and Philips, the Dutch consumer electronics concern.

The competition between two new products, both fulfilling similar functions, confused consumers and is generally regarded as having contributed to the disappointing early sales of both DCC and MiniDisc.

DCC never caught on, and Matsushita quietly stopped manufacturing it last year. MiniDisc sales were also slow to take off, but it was adopted as a cult product, mostly by musicians and record executives, who used it professionally as a recording format.

Sony invested heavily in promoting MiniDisc, but it was only when hardware prices fell last year that it became accepted by mainstream consumers. Sales were also buoyed when more pre-recorded software became available.

Initially, Sony's music subsidiary was the only multinational record company to release albums on MiniDisc, but EMI's record labels started to do so earlier this year, and more recently Virgin Records (also part of the EMI Group) has followed suit.

Sony estimates that worldwide MiniDisc hardware sales rose from 2.4m in 1996, to 5m in 1997 and should reach 9.3m by the end of 1998. Some 5.5m MiniDisc players are expected to be sold in Japan this year, with sales reaching 2.5m in Europe and 1m in North America.

Matsushita says it is convinced that MiniDisc has the potential to sustain significant sales over the long term. At present, it manufactures MiniDisc players in Asia, and exports them from there.

However, the company now believes that demand for MiniDisc in Europe is strong enough to justify localised production. Matsushita has yet to finalise its plans, or to select a site, but it has tentatively scheduled the start of European production for next year.

Matsushita has brought the MiniDisc/DCC conflict to a close at a time when it is preparing to battle against Sony in another new product sector.

Next spring, Matsushita plans to launch DVD Audio, the musical version of digital video discs, as part of a consortium which includes Toshiba. Sony and Philips have jointly developed a rival format, called Super Audio CD, which is expected to go on sale at the same time.

Zhu's business spring gives way to worrying autumn

Despite official denials, new price curbs and a clamp on the telecoms services market have dented the foreign community's optimism over much vaunted reforms, writes **James Kynge**

When Zhu Rongji, China's premier, took office in March this year, the foreign business community was infused with optimism.

Mr Zhu promised rapid economic reforms, seemed to believe genuinely in free markets, and had won the adulation of foreign investors during a previous assignment as mayor of Shanghai. But the initial business optimism of the spring is waning.

In the past fortnight, China has, among other things, ordered several new price controls, decided to close down the means through which foreign companies can invest in the local telecoms services market, and signalled an intent to reorganise many foreign retail joint ventures.

Several recent rules aimed at restricting outflows of foreign currency have dented the confidence of foreign investors, at least partly because they were implemented without being publicly announced.

"I believe Chinese authorities may be underestimating the level of frustration in the business community," said David Aaron, US under-secretary of commerce, who visited Beijing last week.

"There is increasing world competition for scarce investment dollars. Nowhere is this competition going to be more fierce than with China's neighbours."

Chinese officials and think-tank economists said the latest spate of regulations did not signify a repudiation of the "open door" policy nor a slackening in the desire to attract foreign investment. Foreign direct investment totalled $29.3bn in the first seven months of the year, down slightly from the same period a year ago.

The measures can be explained by the need to combat various domestic problems and stimulate economic growth. The price controls, ordered on various machines, textiles, construction materials and petrochemicals, were necessary to prevent dumping on the domestic market and to end price wars which were ravaging the profits of many state-owned corporations, government economists said.

"The government has recognised deflation as the country's biggest economic problem," said one economist. Retail prices fell 3.3 per cent in August, compared with the same month a year ago, deepening an 11-month deflationary trend.

"These price controls are supposed to be temporary. They will be lifted when deflation recedes," the economist added.

The controls on foreign currency have been prompted by concerns over capital flight and exposure to foreign debt. Despite a trade surplus of $31.3bn in the first eight months of the year, China's foreign currency reserves have remained static at about $140bn, a situation caused partly by a sharp rise in Chinese changing their renminbi into US dollars as concern over a possible devaluation grows.

'The authorities might be underestimating the frustration'

Eager to stop hard currency leaving China, the State Administration of Foreign Exchange (SAFE) ruled that companies should no longer be lent renminbi to pre-pay foreign currency loans, a move that prevents many foreign companies hedging against any future renminbi devaluation. The government says it has no plans to devalue this year.

A SAFE official said Chinese banks were free to provide renminbi working capital to foreign companies in China. But several foreign companies said local banks were denying them even working capital.

Another official ruling states that approval should be gained for each repatriation of earnings above $10,000. Foreign diplomats said the ruling, which it seems, is being only sporadically enforced, has incensed some foreign companies.

"New rules are coming out of the blue. When you ask SAFE for clarification, they sometimes deny that the rules exist," said a senior Asian diplomat in Beijing.

Transparency has also been lacking in the handling of a move to close the only avenue through which foreign companies can invest in the promising telecoms services market. Foreign telecoms companies have been informed privately that the complex but officially sanctioned method through which they have invested a total $1.4bn is no longer valid.

But no public announcement has been made on the issue. The question of if, and how, foreigners may be compensated remains a matter for fierce internal debate.

A ban on such telecoms investments may not augur well for the many foreigners who have found similar legal entrées into the China market.

"There are many legal lacunae in China. The government knows that and has been willing to tolerate creativity at least, that is, until now," said a foreign business consultant in Beijing.

Government officials maintain that the decision against foreign telecoms investors is an attempt to "rationalise" the market in preparation for its eventual entry into the World Trade Organisation. Foreign diplomats and telecoms executives believe it was motivated by concerns over competition for China Telecom, the state-owned company which dominates the industry.

"Unfair" competition in the sluggish retail industry was given as one of the reasons for a recent decision to "reorganise" 277 Sino-foreign retail joint ventures. Many of these have gained a business licence from local authorities only, rather than from the central government, said He Ju, a deputy director-general at the State Development and Planning Commission.

The 277 foreign-invested companies will be allowed to continue business only if their promised investment has materialised, and they have "sound management" and do not engage in the wholesale business, the China Daily newspaper said.

ILO criticises export zone standards

By Robert Taylor, Employment Editor

The world is acquiring more and more export processing zones in response to globalisation and the decentralisation of industrial production. This rapid growth, however, has severe consequences for the 27m people (90 per cent of them women) who work in the zones, according to a report published yesterday by the International Labour Organisation.

The ILO defines the zones as industrial areas with special incentives to attract foreign investors in which imported materials undergo processing before being exported.

The report estimates there are 845 such zones across the world. Of these 320 are in North America – the 213 maquiladora assembly plants in the US and 107 in Mexico mostly clustered around border towns such as Tijuana and Ciudad Juarez. These zones export $5bn a year, more than 30 per cent of Mexico's total exports.

A further 225 zones can be found in Asia, including 124 in China, 35 in the Philippines and 26 in Indonesia. But the number are also growing in Bangladesh, Pakistan and Sri Lanka.

The report says the zones are increasing in regions such as the Caribbean (51) with 35 of them in Dominica; Central America (41) notably in Costa Rica, El Salvador and Honduras; and the Middle East (39).

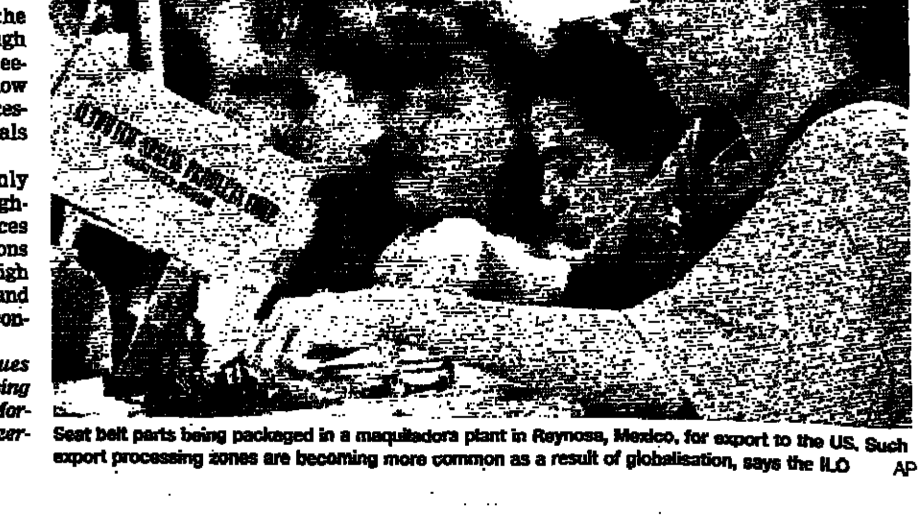
It says the zones are one of the main components of the foreign investment-led export-oriented industrialisation strategy and a vehicle for globalisation. When global production networks or chains are constructed, the zones provide the links.

The ILO analysis says that while the zones are highly labour intensive with a concentration on garments, footwear and electrical components and goods production, providing jobs, especially for women, in developing countries, "too many of them continue to be hampered by a reputation for low wages, poor working conditions and underdeveloped labour relations systems." The zones lead to little transfer of skills or technology to areas adjacent to them, it adds.

"The frequent absence of minimal labour standards and poor labour-management relations have predictable outcomes," says the report. These include high labour turnover, absenteeism, stress and fatigue, low rates of productivity, excessive wastage of materials and labour unrest.

It concludes that only zones which have "high-quality human resources and stable labour relations will be able to meet the high standards for speed, cost and quality in the global economy."

Labour and Social Issues relating to Export Processing Zones, ILO, 4 Route des Morillons, Geneva 22, Switzerland. £10 ($16.60)

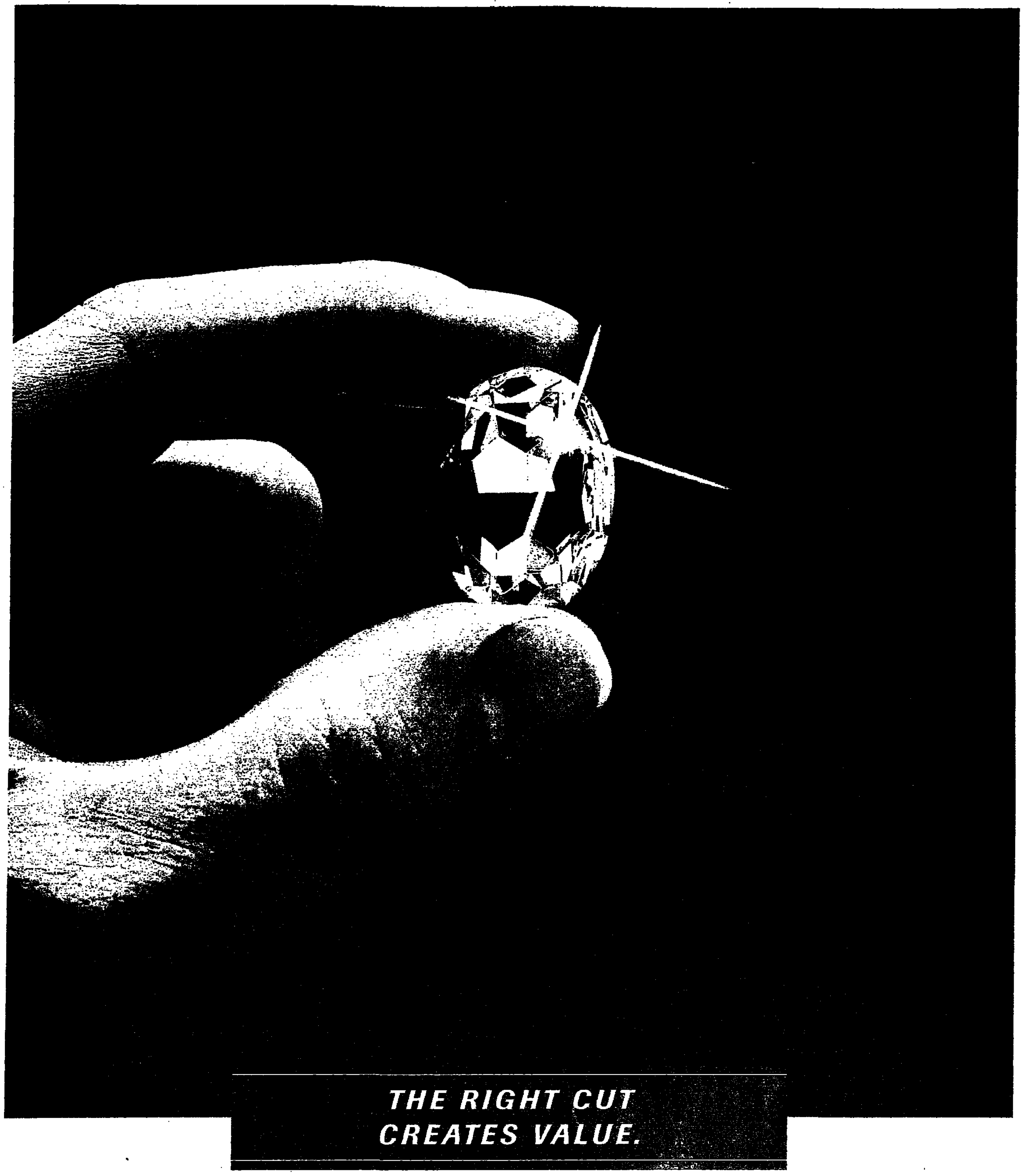


Seat belt parts being packaged in a maquiladora plant in Reynosa, Mexico, for export to the US. Such export processing zones are becoming more common as a result of globalisation, says the ILO AP

COMMONWEALTH FINANCE MEETING

Co-operation
by regions ca
help in crises

The power to create value



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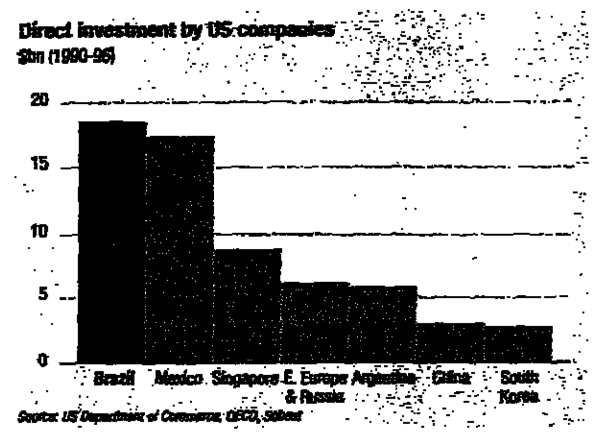
GLOBAL MARKET TURMOIL DAMAGE TO LATIN AMERICA'S LARGEST ECONOMY WOULD BRING CRISIS RIGHT TO US FRONT DOOR

Washington on red alert over Brazil

By Geoff Dyer in São Paulo

Rubin: intense discussions on Brazilian economy AP



Not since the debt crisis of the 1980s have the great and the good of Washington spent so much time thinking about Brazil. With the turbulence in global financial markets lapping ever closer to the US, Latin America's largest economy has become for many policymakers the last ditch.

Robert Rubin, the US Treasury secretary, admitted last week that Brazil had been the subject of intense discussion in his department. The international lending institutions, led by the IMF, are trying to put together a financing package to prevent contagion spreading to Brazil. Fears that Brazil might be forced into a potentially disastrous devaluation have prompted a fall in the country's reserves of more than $20bn in the last two months.

Brazil will also be one of the more prominent backdrops at the US Federal Reserve today when members of the Federal Open Markets Committee decide whether a reduction in interest rates is needed to keep the crisis from seriously damaging the US economy.

On the face of it this might seem surprising. Several decades of protectionism have left the Brazilian economy relatively self-contained. Despite an aggressive trade liberalisation at the beginning of the decade, imports in 1996 were equivalent to just 7 per cent of gross domestic product. Brazil accounts for only 3 per cent of US exports. But given that Brazil is the ninth biggest economy in the world, a collapse would inevitably have wide reverberations. And the basic trade numbers disguise the very real links between the US and Brazil – both in financial markets and in the corporate sector.

"The damage from a Brazilian crisis would be much higher than just the share of trade," said Edmar Bacha, senior adviser at BBA Creditanstalt and one of the authors of Brazil's economic reform programme.

One of the sectors of the US economy which would feel the sharpest impact of a Brazilian crisis would be the banking industry.

At the end of March, according to the Federal Reserve, US bank exposure to Brazil was $27.2bn, more than to Canada, Italy or Switzerland. The figure for Russia, where European banks took the lead, was $6.8bn. After South Korea, Brazil was the emerging market with the highest US bank exposure.

It is for this reason the banking sector appears so willing to put together its own package of emergency financing alongside the credits Brazil is negotiating with the IMF and other international organisations to prevent contagion. "I'm sure that if they were to ask for help, the response would be very positive," said William Rhodes, vice-chairman of Citibank.

Any institutional investor with an interest in emerging markets would also be harshly affected by a Brazilian crisis. Brazil is the largest country in the Merrill Lynch emerging market debt index, accounting for 26 per cent of the index, compared with 5 per cent for Russia.

A recent survey by Merrill Lynch of 26 of the largest emerging market debt funds found that 20 per cent of their assets were Brazilian. (Unlike Russia, this is largely foreign-issued debt: Brazilian domestic debt is almost exclusively held by Brazilians.)

On the equity side, the Brazilian influence has declined somewhat since Telebrás, the telecoms group, was privatised and split into 12 units in July – the company had been one of the most traded shares on the New York stock exchange and the most liquid American Depositary Receipt (ADR). However, the new Telebrás subsidiaries along with several other Brazilian companies are still among the most widely held emerging market stocks.

US corporate profits would also be knocked if Brazil experienced a prolonged crisis. More than 2,000 US companies operate in Brazil. From the list of the 500 largest multinationals published in Fortune Magazine, 405 have Brazilian subsidiaries.

Octavio de Barros, a Brazilian economist who charts direct investment trends using US Department of Commerce statistics, says Brazil has the highest stock of direct US investment of any developing economy. From 1992 to 1996 Brazil received the third largest amount of US investment, after the UK and Canada.

Privatisation has been responsible for around a third of the investment flow, with companies such as Enron, the energy group, and BellSouth in telecoms, using the sell-offs as an opportunity to expand in Brazil. More than half the new money, however, has come from companies with a long history in Brazil, but which have launched heavy investment programmes as a result of the economic stability of the last four years. Both Ford and General Motors, for instance, have plans to invest $2bn before the end of the decade.

Although Mexico is America's second largest trading partner, direct US investment has been heavier in Brazil than in Mexico since the start of the decade. According to John Mein, executive president of the US Chamber of Commerce in São Paulo: "The Mexican market can be served in a lot of cases out of the US. That is not always the case with Brazil."

Perhaps the most pressing concern for US policymakers, however, is the impact a Brazilian crisis would have on the rest of Latin America, a continent which buys 18 per cent of US exports. Accounting for 45 per cent of the region's output, a loss of confidence in Brazil would prompt a sharp downturn in countries from Argentina to Mexico.

"The linkages with Latin America are much deeper than they were with Russia," said Joyce Chang, emerging markets debt strategist at Merrill Lynch in New York.

"If Brazil goes, there will be no way of shielding the US economy from the emerging markets crisis."

European investors sue stockbroker

By Clay Harris in London

European investors are suing Smith Barney, the US stockbroker, in an effort to recover more than $40m which was misappropriated after being accepted on its behalf by a former executive who has been charged with conspiracy and fraud.

Smith Barney, owned by the financial services giant Travelers Group, is one of the biggest retail stockbrokers in the US. The case raises questions about what responsibility a securities house bears when a rogue employee acts in its name.

The clients, based in Germany, Switzerland, Italy, France, the UK and several offshore centres, were told their money was to be invested in mortgage-backed and other investment grade securities.

After early investments totalling $2m had returned from 1 per cent to 6 per cent in a month, investors wanted to put in more, and others begged to join them. The suit claims early profits had been recycled from the investments of later customers. Most of the cash was siphoned into speculative investments, according to investigators.

The Smith Barney executive, Harold Deavours, was sacked in April 1996 and charged by federal authorities in Texas, along with five other people. Their trial is scheduled for February.

Mr Deavours was also censured, fined $165,000 and barred by the National Association of Securities Dealers after the discovery that he was paid $10,000 a month by a company run by his co-defendants while he was a Smith Barney executive.

One of the co-defendants had introduced investors to Smith Barney after approaching them in Switzerland with an offer of high-yield investments.

One investor, Günter Tschudin, a German citizen who lives in Switzerland, said: "We were very impressed with how open, how clear, how helpful and how professional they were."

Mr Tschudin and Thomas Krämer, whose German company is lead plaintiff, said Smith Barney's high reputation was instrumental in persuading them to invest.

Salomon Smith Barney, as the investment bank was renamed after Travelers' acquisition of Salomon last year, said: "These individuals [the investors] were not clients of the firm and none of their funds lost were invested with the firm." It added: "Mr Deavours was operating completely independently, breaking with the firm's strict policy on outside employment and misuse of the firm's name."

Smith Barney had previously acknowledged that Mr Deavours issued "receipts of funds" in its name for the money sent by the investors, but said the firm never actually received any.

Mr Deavours gave investors a letter which stated that he had the authority to issue such receipts on its behalf. The letter was signed by William Lee, Smith Barney's branch manager in Houston, and Robin Novak, compliance officer. The US attorney said an FBI handwriting examiner had concluded the letter was signed by Mr Lee. Mr Lee left Smith Barney in April.

On the web today

- Dispute over tax cuts slows US budget deal
- Smith Barney in firing line: expanded coverage
- Letter from Maui: new start for Fantasy Island?

http://www.ft.com/americas

Congressmen to seek evidence at Starr offices

By Richard Wolffe in Washington

Congressmen will search the offices of Kenneth Starr this week in an attempt to investigate claims that the independent counsel withheld evidence which could help President Bill Clinton.

Democratic leaders last week alleged that Mr Starr had hidden evidence from Congress when he delivered 18 boxes of documents alongside his report on the Monica Lewinsky affair.

The allegations surfaced after Democrats accused Mr Starr of minimising the importance of testimony from Ms Lewinsky. They say Mr Starr failed to quote the former White House intern denying she was asked to lie by Mr Clinton – a central issue in impeachment charges that Mr Clinton obstructed justice.

Henry Hyde, the Republican chairman of the House judiciary committee, said yesterday that a team of Republicans and Democrats would visit Mr Starr's offices this week to request further documents from the inquiry into Mr Clinton.

Mr Starr has already indicated there may be up to 20 boxes of additional evidence from his inquiry into the Lewinsky affair which he judged were irrelevant.

The search for new documents is likely to take place at the same time as thousands of pages of further evidence from the inquiry are published later this week.

The judiciary committee yesterday sent the additional evidence to congressional printing offices after censoring references to sex, secret service agents and criminal investigations.

Mr Hyde yesterday revealed that his committee would soon begin work on defining what constitutes an impeachable offence.

Congressmen on the judiciary committee will take their first steps towards impeachment next week. The committee will hold a public debate on Monday about whether to request from the full House of Representatives power to conduct a full impeachment inquiry.

Mr Hyde suggested he had already decided to vote in favour of such a request, in line with the expected position of the Republican majority on the committee.

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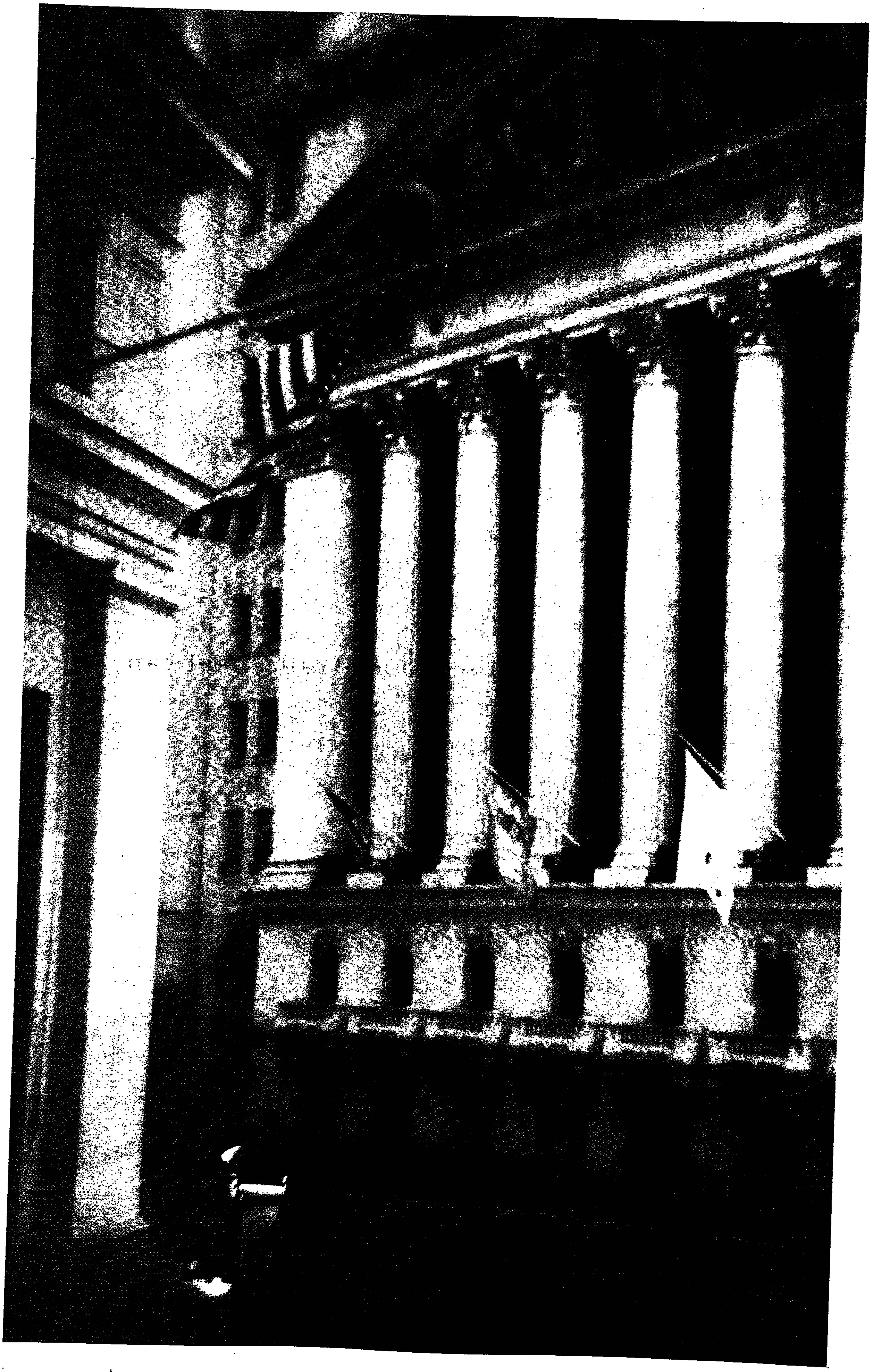

TRADE LATEST FIGURES SHOW DECLINE IN SALES TO RUSSIA AND LATIN AMERICA

Wider slowdown revealed for exports

By Richard Adams, Economics Staff

The fallout from the economic turmoil in Latin America and Russia has dealt a fresh blow to the UK's struggling manufacturing exporters, according to trade figures published yesterday.

Exporters of manufactured goods have suffered through the strength of sterling and weaker markets in east Asia for the past year.

The latest figures from the Office for National Statistics show a decline in sales to other emerging market areas.

UK exports to Russia last month totalled around £70m ($117m), which the ONS said was about £30m below the recent norm. Exports to Latin America fell by 15 per cent in August compared with July, or £250m compared with the usual monthly total of £300m. ONS statisticians cautioned against reading too much into the data for one month.

But the UK's deficit in trade in goods between Rest of World – the ONS category that includes Russia, Latin America and much of south-east Asia – increased to its highest level for the year at £830m.

The export falls were one factor in a general widening in the UK's trade performance outside Europe.

The balance of trade in goods with non-European Union countries was £1.1bn in August, compared with £1bn in July.

Yesterday's trade figures were the first produced using the significant changes to the balance of payments introduced last week. As a result, the UK's overall trade balance for July (combining EU and non-EU figures) showed a deficit of £300m. June's deficit, which was previously estimated at £800m, was revised to just £200m.

Both June and July's figures, and others earlier in the year, were improved thanks to the ONS's wider survey of services exports.

Recently, trade in services has run at a surplus of £600m-£700m a month. The new methodology now has the surplus at £1.1bn for every month between March and July.

Michael Dicks, economist at Lehman Brothers, said the trade in goods figures was "slightly worse" than expected, but with better news for UK prices. "More interestingly, the price-volume splits were dovish. Lower export volumes were combined with a smart fall in import prices. Consequently, the trade account is continuing to help contain price pressures both directly – through cheaper imports – and by suppressing activity."

July's provisional estimates were for export prices to have remained unchanged, with import prices down 1 per cent compared with June. The ONS's estimate of the trend in the trade balance was for it to be "broadly flat over recent months". Its figures showed that – excluding oil trade and erratic items – the volume of imports rose by 1 per cent to a new record monthly level in July.

Hopes fade for N Ireland weapons progress

By Jimmy Burns in Belfast

Hopes of a breakthrough over arms decommissioning ahead of tomorrow's meeting between Tony Blair, the UK prime minister, and Northern Ireland politicians appeared to evaporate yesterday as unionists and republicans dug themselves into seemingly irreconcilable positions.

Dermot Nesbitt, a senior member of the Ulster Unionists, the biggest pro-British party in the region, said there was no question of David Trimble, the party leader and Northern Ireland's first minister, forming a government with Sinn Féin without securing some decommissioning by the Irish Republican Army. Sinn Féin is the political wing of the IRA.

Insisting Mr Trimble was not prepared to risk his party leadership by compromising on the issue, Mr Nesbitt said: "We have our backs against the wall on this issue and we shall stand firm. We want a credible and verifiable decommissioning to be under way before Sinn Féin takes its place in the executive. And we want to convey a message that we mean it."

But Alec Maskey, Sinn Féin leader in the Northern Ireland assembly, said there could be "no question" of making decommissioning a pre-condition for Sinn Féin entering the government.

"A lot of republicans still look at the issue of decommissioning as equivalent to surrendering. The important thing is that we silence the weapons," he said in a reference to the continuing IRA ceasefire.

Mr Maskey said the republican electorate wanted further political progress on issues such as north-south co-operation and police reform before seeing the IRA making any further concession on arms.

The statements followed behind-the-scenes activity in Belfast, the Northern Ireland capital, and Dublin, the capital of the Irish republic, aimed at finding a way of breaking the impasse ahead of meetings Mr Blair is due to have with Mr Trimble and Gerry Adams, Sinn Féin president.

Mr Nesbitt was speaking after a meeting between Mr Trimble and Seamus Mallon, the deputy first minister, and talks between Mr Adams and Bertie Ahern, the Irish prime minister.

Senior officials in Mr Mallon's moderate nationalist Social Democratic and Labour party fear that Mr Trimble is allowing his internal party problems to limit his room for negotiation as first minister – making his political relationship with Mr Mallon more difficult.

No change: Gordon Brown speaks to the conference Reuters

LABOUR PARTY CONFERENCE LEADERSHIP SPECULATION

Finance minister says he does not want top job

By Robert Peston, Political Editor

Gordon Brown, chancellor of the exchequer, yesterday insisted he had no plans to replace Tony Blair as prime minister, in an attempt to stifle speculation that his behaviour is coloured by an uncontrollable desire for the top job.

Mr Brown said his "political ambitions" were "not the ambitions of office".

His motive for this public disavowal was to secure a respite from reports of a rift between him and Mr Blair, which have been a rare source of instability for the government.

The significance of the remarks appeared not to be registered in the packed conference hall.

Delegates were concentrating more on the dour burden of the main message in his speech – that there is no alternative to his tough anti-inflation policy, even in the face of possible recession. But Mr Brown's advisers embarked on a furious round of press-briefing afterwards, to make sure there was no misunderstanding among the media.

The chancellor's chief spokesman said Mr Brown had been planning to make clear for many months that "he is very happy to remain chancellor and has no other ambitions while Tony is prime minister".

Mr Brown had been stung by press interpretation of his systematic wooing of MPs, party members and journalists as a thinly disguised lobbying exercise to win support for an eventual leadership bid.

"This was the one part of the speech we wrote ages ago and has not changed," he said. "The conference seemed to us the best venue to make the position clear."

Mr Brown referred to his long and close relationship with Mr Blair during 14 years of opposition when they shared an office. They had both been motivated by the desire to create a meritocratic society based on equality of opportunity.

There was also a notable change of tone in his 30 minute speech from those he has made to past conferences. He eschewed much of the socialist rhetoric that typically characterise his addresses to party audiences.

Mr Brown made little attempt to sweeten the pill of a tough economic message.

"It is in pursuit of our long-term goals of growth and employment that we will resist the inflate-your-way-to-growth short-termism," he said.

In the face of considerable pressure from trade unions and the Labour left for an immediate cut in interest rates – and a softening of the anti-inflation remit of the bank of England, the UK central bank – Mr Brown said he would not be budged.

"There is no long-term solution to unemployment that does not also demand a solution to inflation," he said.

There was no "comfort in soft options, no magic wand solution".

US accused over modified food products

By David Wighton, Political Correspondent

A former trade minister yesterday warned that public opposition to genetically modified foods could spark a trade war between the European Union and the US.

Lord Clinton-Davies, who was a trade minister until Tony Blair's cabinet reshuffle last July, called on EU governments to attempt to bridge the gap between US manufacturers and nervous European consumers.

He accused the US of not taking sufficient account of public opposition to products manufactured by US companies such as Monsanto. "There is a great deal of prejudice on both sides and if nothing is done we face the possibility of a real trade war," he said.

Lord Clinton-Davies revealed that during his period in office he had held talks with his opposite numbers elsewhere in Europe about an EU-wide approach to the problem.

He said governments had an important role to play but should be careful not to take sides.

Lord Clinton-Davies made his comments at a fringe meeting of the Confederation of British Industry, the employers' lobby, at the Labour party conference.

Adair Turner, the director-general of the CBI, said: "There is a real danger of it developing into a trade war with the US."

He added that the CBI was talking to several leading biotechnology companies about setting up a forum to promote better understanding of the issue. "We need to create a greater degree of discussion and understanding with both sides approaching it with an open mind."

He said the companies needed to get across the idea that genetically modified products could be environmentally beneficial by cutting down on the need for fertiliser and herbicides.

John Redwood, industry spokesman for the opposition Conservative party, agreed the situation was dangerous not least because "several countries on the Continent would quite like to pick a fight with the US".

Financial sector more ready but less willing for euro

Kevin Brown examines some unpublished but revealing details from the MORI survey on business opinion and the single currency

Britain's financial sector is much better informed and prepared for the launch of the European single currency than business in general, but significantly less keen on early UK participation.

Analysis of unpublished details from the MORI survey of business opinion on the euro – published in yesterday's FT – also suggests that the sector is substantially gloomier than average about the likely impact of euro membership on the UK economy.

MORI found that most businesses in the broad financial and services sector thought Britain's economy would benefit from entering the single currency, to be launched in 11 European Union countries in January.

The sector was broadly in line with general business opinion on the question of UK participation in the euro. MORI found that 28 per cent wanted to join as soon as possible, compared with 26 per cent; 35 per cent wanted to join after the next general election, compared with 37 per cent, and 22 per cent wanted to remain outside permanently, compared with 23 per cent.

But MORI was also able to produce a narrower sample based on the industrial classification for finance, insurance and real estate businesses used by Dun and Bradstreet, the business information group.

This excludes tens of thousands of services companies such as hairdressers, management consultants, dental practices and vehicle repairers, leaving a base of just over 19,000 financially oriented businesses.

The narrower sector appears sharply polarised about the benefits of British entry, with only 20 per cent favouring membership as soon as possible, 36 per cent wanting to join after the next election and 34 per cent opposed to UK participation.

This gives a majority for entry in principle of 56 per cent, compared with 63 per cent among businesses as a whole. With more than a third opposed to entry, the sector is substantially more sceptical than the average of 23 per cent.

Only 39 per cent of financial companies said entering the euro zone would be good for the economy, while 45 per cent thought it would be bad. Among businesses as a whole, 48 per cent forecast a positive impact, while only 28 per cent said the results would be bad.

The detailed answers collated by MORI suggest a range of worries among companies opposed to membership in principle. The main concerns were loss of sovereignty (14 per cent), extra bureaucracy, lack of UK control of the economy and loss of decision-making autonomy (24 per cent), the likelihood of economic instability (24 per cent) and the impact on the respondent's own business (30 per cent).

One financial company said the UK should join because 'we would be forced into it anyway'

MORI does not identify respondents, who are guaranteed anonymity. But comments made by the chairmen and main board directors interviewed for the survey demonstrate the sharply polarised view of the single currency in the sector. One big northern financial company, for example, told MORI that the UK should join because "we would be forced into it anyway".

Another big northern company, which wanted to remain outside the zone permanently, said it feared pressure to harmonise taxes. A big company in Scotland, said the potential members of the euro zone were too diverse.

● National Westminster Bank is to offer business customers free banking in euros for all of 1999, writes Clay Harris in London. It said the intention was to help companies that faced extra costs in the short term as operating practices changed to deal with the new currency. The bank is also launching today four interest-bearing euro deposit accounts for business customers. NatWest has opened more than 2,600 euro current accounts for businesses since it began taking applications six months ago.

NEWS DIGEST

PRISON SERVICE

Internal market for young criminals' accommodation

The government is to introduce a market in secure accommodation for young criminals, similar to the system in the state health service under which area-based health authorities purchase care from hospitals. From April 2000, the new Youth Justice Board will have a budget of about £150m ($252m) a year to purchase secure units from the Prison Service, municipal authorities and other providers that will have to compete for business on quality and cost. The units will hold criminals under the age of 18. "There will be a clear purchaser-provider split for the provision of secure facilities for juvenile offenders," said Lord Norman Warner, chairman of the board. There are about 5,000 juveniles in secure facilities. Some 90 per cent of those in custody are held in the 15 youth offender institutes run by the Prison Service, which will lose its £100m annual budget to run them. The government has also let contracts for the construction of five privately built and run secure training centres. Central to their purpose will be constructive regimes run along lines similar to the standard school day. **Simon Buckby, London**

INVESTMENT IN WALES

US group to create 500 jobs

International Rectifier, a leading US electronics company, confirmed yesterday it is to open a £25m ($42m) manufacturing plant that will create 500 jobs in Swansea, south Wales. The Welsh Development Agency welcomed the news as evidence that high-technology investment, which has been concentrated in south-east Wales, can be extended westwards. The WDA, with the local municipal authority, will build a 8,100 sq m factory for the Los Angeles-based company. It will manufacture electronic motion and power control modules – "electronic brains" used to control power supplies and improve the performance of products in the industrial, automotive and consumer markets.

International Rectifier, which employs more than 4,000 people in several countries, will supply the European market from Swansea and will export products to the US and Asia. The WDA said its "fast track" building programme played a part in attracting the company, along with Wales's substantial electronics sector and the availability of skilled labour. **Brian Groom, London**

EU TAKEOVER RULES

UK aims to dilute directive

The UK government is preparing a last-ditch attempt to water down European Commission proposals on takeovers before a directive is agreed. A meeting next week will hear a proposal that would allow the UK to continue its non-statutory system on takeovers, despite a directive from Brussels. The move is likely to be viewed as a sign that the UK has recognised that its fight against the proposed directive is unlikely to be successful. Austria, which took over the presidency of the Commission in July, is understood to be keen to present a draft directive to the council of ministers by November in order to reach agreement by the end of the year. The takeover directive is a core part of its company law agenda.

The UK is particularly keen to prevent any proposed directive from increasing the legal rights of those involved in takeover bids. The UK Takeover Panel, the acquisitions watchdog, has argued vociferously against the proposals. It fears that takeovers will be snarled up in legal wrangling and that the speed and efficiency of its own voluntary code will be eroded. **Jane Martinson, London**

CHANNEL TUNNEL

Shareholders back rail link

Railtrack's shareholders yesterday gave their backing for the company to take over the first stage of the Channel tunnel rail link, clearing the way for construction work on the £5.8bn ($9.7bn) project to start next month. The shares rose 54p to £16.60. The company was last night checking votes cast at an extraordinary shareholders meeting but proxy votes lodged in advance of the meeting were 202m in favour compared with 19.2m against. Shareholders attending the meeting represented 249,410 votes. The tunnel runs under the English channel between England and France. Railtrack is now free to acquire the first stage of the link running for 68km from Folkestone, on the south coast of England, to Fawkham Junction near Dartford, outside London. Under agreements reached with the government and London & Continental Railways, promoter of the project, it will pay £1.5bn for stage one when work is completed in 2003.

A further 39 agreements involving the company, the government and LCR remain to signed but they have been largely drafted and can be completed over the next few months, Railtrack said. **Charles Batchelor, London**

'GREY GOODS'

Poll calls for end to EU ban

An overwhelming majority of consumers believe the government should press the European Union to revoke the ban on supermarkets selling designer goods at reduced prices. The Parallel Traders' Association – which represents importers of branded goods for discount retailers, the so-called grey market – was launched last week with a MORI poll showing 79 per cent of the population supports a revocation of the ban. A recent European ruling banned retailers from selling branded goods if they were sourced outside the UK without the brand owner's permission.

The survey shows that customers also believe by a ratio of five to one that manufacturers should not be allowed to stop supermarkets from selling the goods. **Peggy Hollinger, London**

Fears over global consolidation in insurance

By Andrew Bolger, Insurance Correspondent

The recent trend towards the creation of a handful of global "mega-brokers" has sparked unease among companies that place insurance premiums worth more than £1bn in total annually.

A survey of members of the Association of Insurance and Risk Managers, who buy insurance on behalf of big private and public sector organisations, found half are concerned that recent consolidation among brokers will reduce choice and diminish service.

Two US concerns, Chicago-based Aon and Marsh & McLennan in New York, are set to dominate the sector. Last month Marsh & McLennan bought Sedgwick, Britain's biggest remaining independent insurance broker. Willis Corroon, Sedgwick's UK rival, is also being acquired by US buy-out specialist Kohlberg Kravis Roberts.

The survey found that Marsh & McLennan and Sedgwick would between them account for about 40 per cent of the business that risk managers currently placed with brokers in their principal areas of UK cover – such as property insurance and employers' liability.

The survey, which received responses from 84 organisations, found that 64 per cent of those polled expected brokers' fees to increase and more than half believed service levels would decrease.

But some Airmic members – particularly the bigger organisations – believe consolidation will strengthen the London market by introducing big players who can invest in global technology systems and sophisticated products.

Mark Butterworth, deputy chairman of Airmic, said: "On balance, I believe consolidation will be a positive development for the London insurance market. But it is worth watching how this power is used, because concentration of power has not been healthy in the past."

Lloyd's managing agent acquired by members' agent

The consolidation of the Lloyd's insurance market continued yesterday with the first acquisition by a members' agent, Greenwich Insurance Holdings, of a managing agent, Service Managing Agency, for more than £1m ($1.6m). Members' agents are responsible for looking after the personal affairs of Names, whose assets have traditionally underpinned the market. Managing agents control syndicates of Names on whose account an underwriter accepts business. Most of the market's capital now comes from corporate sources, first admitted to Lloyd's in 1994. With an emerging secondary market in "capacity", or the right to support Lloyd's insurance syndicates, members' agents can no longer offer exclusive access to the best underwriters and are forced to restructure.

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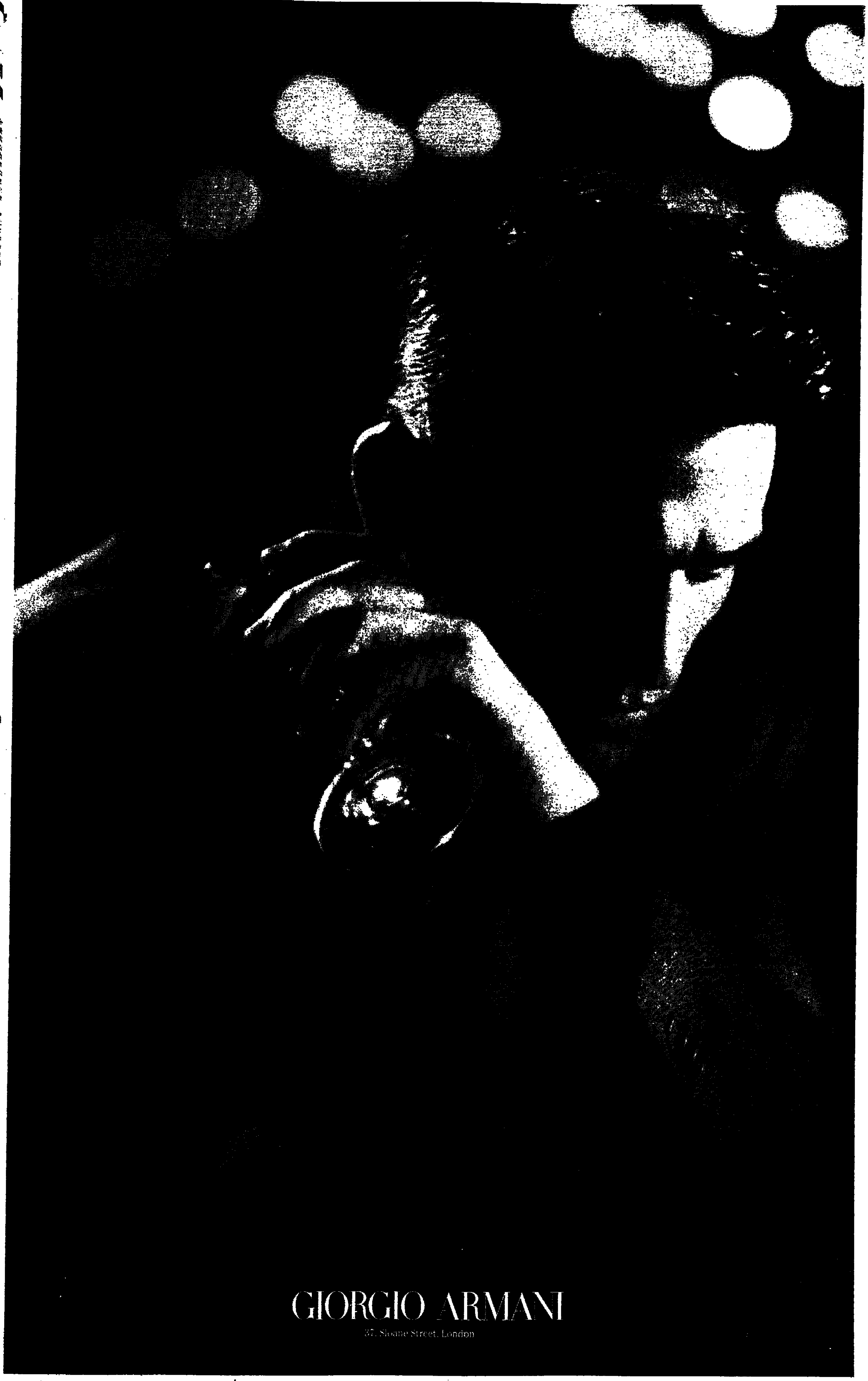

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National time limit upheld

European court

The European Court of Justice has ruled that European law does not prevent an EU member state from relying on national time limits as grounds for refusing repayment of a charge that has been levied in breach of a European directive.

The case arose in connection with an annual registration charge levied by the Italian authorities on companies in Italy. Between 1986 and 1992, Edilizia Industriale Siderurgica (Edis) paid L64.5m to the Italian Treasury. In 1993 the European Court ruled that such a charge was contrary to European law. Edis applied for a refund.

The Italian authorities relied on a domestic three-year time limit on claiming refunds to deny repayment.

The Italian court referred the case to Luxembourg.

The Court was asked whether the time limits were compatible with European law, given that reliance on them would restrict the effects of its 1993 judgment.

It reiterated that the effects of a judgment interpreting European law would normally date back to the time when the rule came into effect. In this case the rule was in a 1969 directive.

The Court said it was only exceptionally that it could limit the effects of a judgment. However, the application of domestic rules was not to be confused with limiting the effect of an interpretive judgment of the Court.

It was established law that in the absence of harmonising measures governing the refund of national taxes, it was for the domestic legal system to lay down the relevant procedural rules for safeguarding individuals' rights derived from European law. As long as those rules were no less favourable than those governing similar domestic actions and did not make it excessively difficult to exercise EU rights, then they would be compatible with European law, it said.

However, the European Commission argued that the Court's case law also provided that European law precluded a national law that restricted repayment of a duty held to be contrary to European law by the Court solely to plaintiffs who brought an action for repayment before the delivery of the Court's judgment.

Such provisions simply deprived potential plaintiffs of the right to obtain repayment and therefore rendered the exercise of their European law rights impossible.

The Court distinguished the present case on the basis that the domestic rules relied on by the Italian authorities had been in force for many years before the Court's 1993 judgment. Also the rules not only concerned the charge in dispute but all registration charges levied by the Italian government.

The Court said European law did not prohibit a member state from resisting actions for repayment of charges levied in breach of European law by relying on a three-year time limit.

That was true even where the time limit amounted to a derogation from ordinary rules governing actions between private individuals for the recovery of payments, for which the period allowed was more favourable, provided the time limit applied in the same way to actions for repayment based on European law as to those based on national law.

A national time limit was not incompatible with European law simply because the limit would be reckoned from a time when the relevant directive giving rise to EU rights had not been correctly transposed into national law – unless operation of the time limit would deprive an applicant of any opportunity of enforcing those rights.

C-231/96: Edilizia Industriale Siderurgica v Ministero delle Finanze, ECJ FC. September 15 1998.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE ON THE MOVE

Ter Haar to succeed Land at Hagemeyer

Andrew Land is leaving Hagemeyer after 12 years in which he took what was a ragbag offshoot of a Hong Kong trading house to rank among the top two dozen Dutch quoted companies. Supermarkets chief **Rob ter Haar** is his successor.

Land, who will depart next year when he turns 60, had said he knew of several suitable candidates inside the company.

He himself personified Hagemeyer, choosing to deal personally even with routine media inquiries. There cannot be many companies with Fl 11.4bn ($5.7bn) annual revenues where the direct line number to the chairman's office appears at the bottom of press releases.

Ter Haar is chief executive of De Boer Unigro, the Netherlands' second largest food retailer. He takes the job rather than becoming number two to Willie Angenent of Vendex Food, with which his chain is merging. Ter Haar, aged 48, had been due to succeed Angenent on his retirement in two years' time from the new group, which is to be called Laurus.

He joined in 1993 after an international career including marketing and distribution roles with Procter & Gamble and Sara Lee, the US consumer groups.

Hagemeyer, which is mainly involved in distributing technical and consumer products, sees North America as the next area for expansion. Its exposure to Asia has dented its share price, although Land has remained committed to a region with which it has century-old links.

Land won independence for Hagemeyer early this year when First Pacific sold its 40 per cent stake. In doing so he also dropped the defences against hostile takeover with which Dutch companies commonly surround themselves.

But some of Hagemeyer's recent history has an only-in-Holland flavour to it. In getting out of manufacturing, Land disposed of one maker of bicycles only to find that virtually the next company it wanted to take over also had a subsidiary turning out two-wheelers. The deal was done, and the division sold.

Gordon Cramb, Amsterdam

Departures at MCI WorldCom

Bernie Ebbers, chief executive of the new MCI WorldCom, was never known for hanging on to the top executives from the companies he buys for long. A career spent acquiring other US telecoms companies has seen a parade of talent walk out of the door – though John Sidgmore, who built Uunet into the biggest internet carrier, has been a notable exception.

With the purchase of MCI just completed, therefore, it is not surprising to see the brain-drain starting again. **Gerald Taylor**, MCI's chief executive, last week announced his retirement at the end of the year after 30 years. **Lance Boxer**, chief information officer, also departed, to join Lucent Technologies.

With Taylor's exit, MCI will be losing a piece of history. He was only the sixth employee hired by Bill McGowan, the company's founder and the man who led the assault on AT&T's long-distance monopoly. As head of the new MCI WorldCom's fast-growing international operations, Taylor had also been expected to play an important role in its future. The company has yet to announce a replacement.

The departures will only heighten the speculation about **Bert Roberts**, the former MCI chairman who now chairs the merged company. Can there really be room for two powerful entrepreneurs at the top of the same company? According to MCI WorldCom insiders, Ebbers and Roberts have hit it off so far – and were professing mutual admiration at their first company-wide sales conference in St Louis at the weekend.

Richard Waters, New York

Vyakhirev joins Wintershall

Wintershall, the German oil and gas company, has appointed **Rem Vyakhirev**, chairman of Gazprom, the huge Russian gas monopoly, to its supervisory board.

Vyakhirev – his first name stands for Revolution Engels Marx, a popular moniker for Russians born in the Soviet era – is an old-school Russian director who succeeded Viktor Chernomyrdin, the former Russian prime minister, at the helm of the powerful Russian gas behemoth. He is a veteran of the gas industry who has spent his working life within Gazprom.

The appointment strengthens existing ties between Gazprom and Wintershall, which is a fully owned subsidiary of German chemicals group BASF. Since 1993, they have run a joint venture, Wingas, to distribute Russian gas into the German market and across most of western Europe. It has made successful headway against rival Ruhrgas which in previous decades before liberalisation of European energy markets was the dominant distributor in Germany.

Vyakhirev's son, Yuri Vyakhirev, is a director of Wingas, responsible for purchasing.

Gazprom, which controls around a third of the world's natural gas reserves, is now the biggest single supplier to the German market, which depends on Russia for around 40 per cent of its gas needs.

As well as important economically, Gazprom is a powerful force in Russian politics. Russia's biggest company is now arguably stronger than ever because it is one of the few companies left standing and generating valuable foreign currency since the country's recent financial crisis hit.

As a further step to strengthen the internationalisation of its management, Wintershall has also appointed **Philippe Bodson**, chairman of Belgium energy group Tractabel, to its supervisory board.

Graham Bowley, Frankfurt

Simor elected to exchange

Andras Simor, former chief executive of CA IB Investment Bank in Austria, has been elected chairman of the Budapest Stock Exchange, after the departure of Zsigmond Jarai for the finance ministry this summer. Simor left the Vienna bank after just one year, having previously headed the Creditanstalt brokerage arm in Budapest from 1989.

Simor is a product of the former Karl Marx University of Economics in Budapest, which despite its name, managed to produce some of the most reform-minded elite in Hungary.

Graduating in 1976, he began honing his practical financial skills in the National Bank of Hungary, before moving to London as a department head of the Hungarian International Bank from 1979 to 1985. Another stint at the central bank in Budapest served as final preparation for the financial liberalisation at the end of the 80s.

The new bourse chairman aims to cut trading costs to increase the BSE's competitiveness, a route he sees as the only way forward to ensure Budapest's long term survival in the increasingly borderless world of securities trading. He is also unhappy with the tarnished image of brokers following a spate of brokerage failures in the bearish Hungarian market of late. This means tighter standards, he says, though advocating a more effective "self-regulating" bourse rather than more extensive and expensive supervision.

Kester Eddy, Budapest

Winterbotham: to Pundit

Janiszewski to Bankers Trust

Hubert Janiszewski, *HSBC's chief in Poland for the past seven years*, has resigned to head Bankers Trust investment banking operations in Warsaw.

Janiszewski, 54, a former Polish government official specialising in inward foreign investment, won his investment banking spurs at HSBC when it advised the Polish government on the privatisation of the Powszechny Bank Kredytowy, as well as the Bank Gdanski which was also the country's first GDR issue.

Christopher Bobinski, Warsaw

Moving places

- **Patrick Jones** is joining Gemplus, the leading supplier of smart card technology. Jones has been appointed senior vice-president, chief financial officer, of Gemplus. He was formerly vice-president, corporate controller, at Intel.
- Chase Manhattan Global Asset management and Mutual Funds has appointed **Christian Yates** managing director and head of international mutual fund sales. He will lead Chase's mutual fund business development in Africa, Asia, Europe, Latin America and the Middle East. He joins from Lazard Asset Management, where he was director of European Business Development.
- Smurfit Europe has appointed **Tony Smurfit**, a director of Jefferson Smurfit, deputy chief executive Europe, after his tenure as chief executive France. **François Vittoz**, currently chief executive of Smurfit Spain & Portugal and the paper sack business, will succeed Tony Smurfit as chief executive of Smurfit France and will retain responsibility for Smurfit's European paper sacks business. **Miguel Mediero** has been appointed chief executive of Smurfit Spain and Portugal, having managed Smurfit Europe's Spanish mills.
- A new consultancy, Pundit, has been established by **James Winterbotham**, which will advise companies investing in India and Indian companies investing abroad. He was formerly with Lazard Brothers' corporate finance department where he had been a main board director.
- ABN Amro Bank has made new appointments to its global equity division. **Claus Gregersen**, managing director of Alfred Berg ABN Amro in Denmark, has been named head of ABN Amro's European equity business. Gregersen succeeds Nick Bannister who was appointed head of ABN Amro's's global equities business. Succeeding Gregersen is **Henrik Heideby**. He has headed Alfred Berg's corporate finance activities in Denmark. The third appointment is **Risto Silander**, managing director of Alfred Berg ABN Amro in Stockholm. He joins from Warburg Dillon Read where he was managing director of the Stockholm office.

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MANAGEMENT HANDLING A DISASTER

When a crash becomes a crisis of confidence

Richard Tomkins asks what lessons can be drawn from the public's contrasting responses to the Swissair and TWA jet crashes

When Swissair's flight 111 plunged into the sea off Nova Scotia earlier this month, the tragedy bore several similarities to the loss of Trans World Airlines' flight 800 two years earlier.

Both jets crashed off the North American coast soon after leaving New York. Both were bound for Europe. Neither accident left any survivors. Neither has been fully explained.

But the two disasters provoked sharply differing reactions. In the first, TWA was accused of incompetence and insensitivity for the way it responded to the needs of the victims' families. In the second, Swissair earned praise for its efficiency and compassion.

For TWA, the result has been lasting damage to its reputation. In contrast, Swissair's handling of the flight 111 crash has left confidence in the airline intact, and may even, conceivably, have enhanced it.

Richard George, director public relations for the Public Relations Society of America, says a crash is a "defining moment" for an airline. "In a matter of seconds, a reputation that has been built up over decades can be destroyed by making a mistake at that time," he says.

So what lessons in crisis management emerge from the differing outcomes of the TWA and Swissair crashes?

TWA found itself portrayed as the company that could do nothing right

Gary Abe, deputy director of the National Transportation Safety Board's office of family affairs, says the speed of an airline's response is one of the most important factors in determining how its behaviour is perceived.

"The first 24 hours following a disaster are critical for the airline involved. That is probably the only opportunity to build a trusting relationship with the family members," he says.

"If an airline doesn't do that within the first 24 hours, everything else that happens afterwards is more likely to be a conflict between family members and the organisation."

TWA drew fury after the crash of flight 800 by refusing to produce a passenger list until it had determined exactly who was on the aircraft and notified their families – a process that took almost a full day.

Family members also complained that calls made to special toll-free telephone numbers went unanswered, that the flow of information was inadequate, and that insufficient attention was paid to their travel and accommodation needs.

Soon, politicians such as Rudolph Giuliani, New York's mayor, started lambasting the airline for its handling of the disaster; the news headlines became critical; and TWA found itself portrayed as the company that could do nothing right.

Swissair's experience could hardly have been more different. Within hours of the loss of flight 111, a passenger manifest had been issued, fully functioning hotlines had been set up, and hundreds of crisis counsellors had arrived in New York, ready to receive the grieving families. Soon afterwards, flights to the crash site at Peggy's Cove were being planned.

Friends and relatives were grateful for the way Swissair kept them informed of unfolding events, and appreciated the airline's offer of $20,000 (about £12,000) for each family to cover immediate expenses. Mr Giuliani praised the airline, and favourable headlines flowed.

One factor that worked in Swissair's favour was legislation passed by Congress in 1996 requiring airlines to be much more responsive to the needs of victim's families after crashes.

The Aviation Disaster Family Assistance Act – passed after a series of air crashes – required domestic carriers to file detailed plans for providing accurate passenger manifests, issuing toll-free telephone numbers, returning victims' personal effects and helping families with their travel and personal needs.

"That forced the airlines to have a good, effective manifest procedure," says Mr Abe. "Some of them didn't do that in the past. They just didn't care about their manifests, so they never really knew who was on the plane."

That legislation was not in place before TWA's flight 800 went down. But legislation in December extended the requirements to foreign carriers serving the US, so Swissair had been required to draw up contingency plans.

Swissair also benefited immeasurably from its code-sharing agreement with Delta Air Lines, the third biggest US carrier, under which the two sell seats on each other's flights as if they were their own.

By that agreement, Delta treated the loss of flight 111 as if it had been the loss of a Delta aircraft, and deployed the full weight of its resources in the crisis management effort. At times, the hundreds of Delta care-givers in New York and Peggy's Cove outnumbered the victims' relatives and friends.

In contrast, TWA – twice bankrupt, and now a relatively small carrier – was on its own. It was also in the unfortunate position of just having shed two top executives when the disaster struck, and its then chief executive, Jeffrey Erickson, was on business in England.

TWA suffered other misfortunes, too. Immediately following the loss of flight 800, there were suspicions that the aircraft might have been the target of a terrorist attack. That meant an array of government agencies became involved, taking control of the situation from TWA. And for security reasons, relatives were barred from visiting the crash site, adding to their grief.

One obvious lesson from these disasters, as from any others, is that companies should rehearse for the worst, and rehearse often. A less obvious moral may be that no expense should be spared in helping the victims' families – if not out of compassion, then out of respect for the bottom line.

Mr Abe says US airlines, unlike their European and Asian counterparts, do not like giving victim's families financial help in the immediate aftermath of a crash because their lawyers fear it will be construed as an admission of liability.

But generosity makes more sense in the long run, Mr Abe says, because the airline's behaviour will be influential when the inevitable lawsuits start to fly.

"Many family members I've talked to in the past have said they really didn't want to file suits, but they just felt like the airline didn't care, and the airline and the underwriters gave them such a hard time that they were going to sort of punish them," Mr Abe says.

With a generous approach, Mr Abe says, "you are still going to have lawsuits, but they may not be as big." People are also likely to settle more quickly – an important factor in bringing as swift an end as possible to the negative publicity.

James Lukaszewski, chairman of the Lukaszewski corporate trouble-shooting firm, agrees. "Generally speaking, I always advise companies that the earlier you write the cheques, the smaller those cheques are going to be. The way people feel about what happened is the main determinant of litigation. The humaneness of the airline, along with what it actually does, are the determining factors here."

FBI agents and New York state police guard the reconstructed TWA aircraft in a hangar in Calverton, New York AP

Swissair allowed grieving relatives to visit the crash site at Peggy's Cove, Nova Scotia Popperfoto

TECHNOLOGY FIREFIGHTING

Spy in the sky holds key to a burning problem

Weather satellites are being used to detect the sites of forest fires before they rage out of control, writes **Edi Smockum**

One billion hectares of land burned worldwide: 234 killed when a Garuda Airbus crashed in a smoke haze in northern Sumatra; 100,000 evacuated from their homes in Florida; and as yet uncalculated losses in Greece and Cyprus.

During the past year, the havoc wrought by forest fires has been immense. And many firefighting officials are convinced the situation is getting worse. As one put it: "Who would have expected the Amazon [jungle] to be on fire?"

Even those sceptical of global warming and climate change would find it hard to explain why the three worst fires in Canada this century have occurred in the past decade. The Worldwide Fund for Nature has estimated Indonesia's fires to have cost the region $1.4bn. And so developing technology for detecting wildfires and for fighting them has taken on a new urgency.

The most important development involves harnessing technology to spot fires before they get out of control. However, this is easier said than done in countries the size of Russia and Brazil where fires can burn for days before they are discovered. Scientists looked to existing technology, namely weather satellites, of which the most powerful belongs to the National Oceanographic and Atmospheric Administration in the US. Its polar orbiter AVHRR (advanced very high resolution radiometer) sensor scans a thin ribbon of earth beneath its path, transmitting data to anyone with the proper receiving equipment.

Some clouds can be particularly bright and reflections off them can look like fires

The data consist of five channels. One is in the visible region, one in the near infra-red, and the rest further into the infra-red. Large fires are often seen in channel three, the mid infra-red channel, near where the fire spectrum peaks.

Weather satellites such as the NOAA's can identify the world's "hot spots", those areas that are 37°C hotter than the surrounding area. This is a good indicator of forest fire activity, but scientists had to struggle with the technical difficulties inherent in using sensors that were not designed for fire monitoring.

The challenge for researchers was to eliminate "false" fires. These could be caused by myriad natural phenomena: AVHRR cannot see through thick cloud; some clouds can be particularly bright and reflections off them can look like fires; and small fires or "cluster" fires are difficult to differentiate. By identifying these problems and using verification systems on the ground, this issue has been largely resolved.

Success varies depending on the country, but Zhanqing Li at the Canadian Centre for Remote Sensing says its system can detect 90-95 per cent of the country's fires.

Finland has taken the process one step further. VTT Automation, the government owned research institute, has integrated information from the NOAA satellite with a warning system for fire-fighting teams. For each detected fire, a fax giving the fire's location, the observation time and a map showing the location is sent directly to the local fire authorities.

Fires as small as 0.1 hectares in area can be picked up, with an average 31 minutes between detection and the alert being given. The institute intends to make the system available to neighbouring countries in Scandinavia and plans a new prototype system for China.

Jean-Paul Jeanrenaud, head of the Forest for Life programme at the Worldwide Fund for Nature, agrees that adequate early warning systems are desperately needed. He warns, however, that they must be integrated with other information systems.

He points out that in early 1997 meteorologists knew it was going to be a particularly bad year for the El Niño weather phenomenon, but the information was not fed through to environmental groups.

"We could have been made more aware of what potentially lay ahead," he says.

Researchers believe that the space-based platforms will also prove a useful long-term study tool. Already, with a minimal investment, weather satellites have been able to provide regional and national snapshots of burning fires in just one day. Conventionally, this was done at the end of a fire season, long after the damage was done.

Next year, Nasa is launching its Earth Observation Satellite, which will have the first channel dedicated to fire monitoring. This will help scientists measure the damage done by fires and monitor more closely their wider effects.

Out of control: a forest fire in New South Wales, Australia, last year. Officials are convinced that the problem is getting worse throughout the world AP

Hot shot: Bombardier's CL-145 can reload with 6,000 litres of water in a 12-second pass

DOUSING WITH AIRCRAFT

Water bomber gives a flying start

When forest fires do occur, the methods used to fight them remain rooted in tradition. Fires are still fought by men and women much the way they were 20 years ago, writes Edi Smockum.

However, one innovation that has seen a lot of action this summer is Bombardier's CL-415 aircraft. It is the only aircraft designed and specially built for firefighting.

The CL-415 takes just 12 seconds to skim the surface of a body of water and scoop up more than 6,000 litres of water. It can then drop the water fairly close to the fire – from heights as low as 30m above the tree tops.

Tom Appleton, president of Bombardier's amphibious aircraft division, says: "You don't have to be a rocket scientist to see that the quicker you get a lot of water on a fire, the quicker the fire is out."

The water can also be mixed on-board with suppressant foam that improves its efficacy. Unlike tanker aircraft that must load water at a fixed point, the CL-415 can work independently as long as it has a body of water to feed it.

The record for the number of drops in one hour, set by a pilot working with the Province of Quebec, was 32 – roughly one drop every two minutes.

If a warning is given quickly enough, the initial attack of the CL-415 can be very effective.

But Jean-Paul Jeanrenaud, at the Worldwide Fund for Nature, points out that once wildfires have really taken hold, water bombers and other fire-fighting methods are often a waste of time.

"It's like putting a sticking plaster on an open artery," he says.

More often than not, it is nature, not technology, that puts out fires. In Florida, as well as in Brazil and Indonesia, rain succeeded where crews working 24 hours a day had failed.

Or perhaps divine intervention played a part: in Brazil, a group of Indians held a rain ceremony during the fires in Roraima state. The next day, the rain began.

One of the National Gallery's more curious and intriguing exhibitions had as its centrepiece John Constable's great painting of 1826, "The Cornfield", with its famously familiar view down Fen Lane and out across a Dedham Vale bathed in the sunshine of late summer. That exhibition of two years ago, initiated by Colin Painter, an artist himself and until lately principal of Wimbledon School of Art, was intended to draw attention to the painting not as the focus and object of art-historical and aesthetic study, but as an icon in itself.

"The Cornfield" is a view of what was Constable's daily boyhood walk to school, and there is not a little to it of the childhood idyll in its incident and detail: the boy drinking from the

Colin Painter has recorded how different people from all walks of life, brought together by a common interest in Constable, think and feel about the artist

stream, his dog, the donkey, and the flock of sheep. But it was on show to examine its more particular role as one of those rare works that somehow has taken on a status quite independent of its qualities as a work of art, in the same way as Leonardo da Vinci's "Mona Lisa"; Hogarth's "Shrimp Girl"; and Van Gogh's "Sunflowers".

That exhibition was intended more as sociological inquiry, looking at what the painting meant to people across the broadest social range, from the specialist to the innocent and naive. Here we saw the painting not so much as it is, but as it is known, from postcard and poster, tablemat and embroidered fire-screen; treasured by those who never dreamt that the original was to be seen at Trafalgar Square. The point it made was that, important though high art is as art, it also works its powerful magic in other ways.

In the course of his inquiry, Painter came to realise that perhaps the most significant factor in the painting's broad appeal, quite beyond its supposed realism, accuracy and truth to life, lay in a perceived quality of "Englishness". From the very first, it seemed to touch a common nerve, deep and atavistic.

Retired electronic engineer Douglas Osborne, who has painted many reproductions of Constable's pictures: "I made my copy of 'The Leaping Horse' as a challenge. I painted it in my shed" A Powter

The very essence of Englishness

William Packer on a show examining the public's response to an artist whose work has entered the nation's consciousness

Here was our dream of innocence, a Golden Age and a shared past. And so it occurred to Painter to broaden his scope from the single painting to the land itself, and that particular tract known as "Constable Country". There, in that corner of north-east Essex and the Suffolk border, are the very places that even now are immediately recognisable not just from, but almost as, the paintings: Flatford Mill of the "Hay Wain"; Willy Lott's Cottage; the Dry Dock, only lately rediscovered; the far bank of the Stour and of "The Leaping Horse"; across the fields, the tower of Dedham Church glimpsed through the trees.

Painter then sought out people of all kinds, artists and others who live and work there, or who acknowledge some close affinity to Constable in their lives or work. Now, just down the road at Ipswich, he sets out their response along with an example of their own work, or the setting of their lives, all thoroughly documented in the catalogue (published by the Ipswich Museums and Galleries at £9.99). It is all engagingly straightforward, neither patronising nor ironic, but simply curious in discovering how different people, brought together by a common interest, think and feel.

Here is John Constable, the artist's great-great-grandson and himself a painter: "I grew up with Constables hanging on the walls . . . Today I admire the structure . . . but in those days it was the subjects that attracted me. I remember being impressed by the . . . modesty of his choice. He didn't idealise the landscape."

Chris Dobrowolski is a young sculptor lately out of the Royal College. He is showing a mock-tank he has made and camouflaged with Constable reproductions he picked up at car-boot sales – a video shows it chugging across a field as a tractor in the distance gets on with its job: "I need the things I make to be some sort of small adventure . . . It's a kind of English garden-shed mentality. Very English . . . What's that horse and cart doing in the middle of that mill pond?"

Douglas Osborne is a retired electronic engineer and amateur painter: "I have painted many reproductions of Constable's pictures and have been greatly influenced by his work . . . I made my six-foot copy of 'The Leaping Horse' as a challenge. I've never seen the original painting . . . I painted it in my shed. The reproduction I copied it from was only about four inches long."

Lisa Harris, who works in a supermarket, is making a tapestry of "The Hay Wain". "It was a 20th birthday present from my Mum. I had asked for it specifically . . . I used to go and visit a neighbour with my Mum and just behind the door there was a big picture of 'The Hay Wain'. I don't know why but it stuck in my mind . . . We went on a school trip to the National Gallery and I remember walking through the glass door and just there on my left was the picture I'd seen on my friend's wall . . . I wasn't expecting it. It blew me away!" And how many of us have not had all but the same experience?

The Uses of an Artist – Constable in Constable Country Now: Wolsey Art Gallery, Ipswich, until October 25.

DANCE IN PARIS THE NATIONAL BALLET OF CUBA

Saved by the Swan Princess

The National Ballet of Cuba is marking its 50th anniversary this year with a European tour. The company has always prided itself, and rightly so in the past, on its serious and handsome classic manner. This is owed to Alicia Alonso, brilliant ballerina and founder of the troupe, and still its director.

Alonso is a legendary figure, both for her range of artistry – we saw her first in the 1940s in Balanchine's *Theme and Variations*, which was made for her, then as a heart-rending Lizzie Borden in *Fall River Legend*, and as a Giselle of rare romantic eloquence – and for her indomitable fight against near-blindness, whose tragic effects she denied by dancing with astonishing artistry into her 70s.

Her monument is not merely her identity as a profoundly serious artist, but her further attainment in creating and still inspiring her nation's ballet company. Its visits to Europe over the past two decades have been admired and eagerly viewed.

Which said, I have to report that the Cuban Ballet's opening performance this week in Paris at the Théâtre des Champs Elysées was a huge disappointment. Its luggage was Alonso's stagings of *Swan Lake* and *Giselle*, and with what seems the usual misjudgment by troupes for an important overseas premiere, the company presented *Swan Lake*.

The staging has too many problems to do more than cite briefly. Proclaiming itself "traditional", it offered a fudged view of what we think of as a traditional text. Prince Siegfried's schloss was NeuDisneystein; the costuming was from the wardrobes in Operetta Hell; the taped score had been recorded in an acoustic both boxy and reverberant. Vivacity reigned. As the production yawned before us, a sahara of tedium, one moment spoke of truth as the Queen Mother gave every sign of wanting to have the Jester put to fire and the sword. Then Lorna Feijóo appeared as Odette, and we were saved – or at least given hope of something serious and good.

The production yawned before us, a sahara of tedium . . . then Lorna Feijóo's appeared as Odette. I thought her wonderful

I have reported previously and with admiration on Feijóo's Giselle with the Royal Ballet of Flanders. Her Odette, like her Odile, is beautiful and elegant in statement, entirely in command of the role. The Swan Princess's lyricism has a luminous grace, a sense of being haunted by tragedy, and is imbued with the most delicate reserve of feeling – nothing is extreme or over-blown. Her Odile, marked by a virtuosity all the more astonishing because of Feijóo's purity of means, has a demonic force beneath its cool exterior. I thought her wonderful. Her Siegfried was José Manuel Carreno, still the charming dancer we remember from his English National Ballet seasons, but rather passive in manner. For the rest, comment is best unsaid.

Hopes for the *Giselle* on the next night were not high. But Alonso was a celebrated Giselle, and her staging has every merit one could wish to find. It has a sense of how Romantic drama may be played and made to touch our hearts still. It has simple, effective design, and, alas, recorded music yet again, but in every life a little rain must fall.

It has, best of all, a decent text played by an ensemble that understands the historical resonance of the piece. And it has, even more best of all – if you follow me – the impress of Alonso's own performances, wise with their many years, sensitive as only a ballerina can make a staging whose every emotional turn she knows from active experience.

This is a Giselle's *Giselle*, with each dramatic point made clear and unfussed, and every nuance of step in place. And it had a worthy interpreter in Alihaydée Carreno. She is young, beautiful, and possessed of a beautiful technique. She also wears the weight of tradition of the piece – inherited from Alonso – with a completely natural and loving air. She looks not a little like Alonso in the role: poses, positions of arms, quick flashes of astonishing bravura, brought back my happiest memories of Alicia Alonso's Giselle.

But the ballet is hers on her own terms as an artist of exceptional range and grace of expression. Once again, as with Lorna Feijoo, there is an inherent control and distinction of manner. The mad-scene seemed freshly tragic; the entire wili sequence was poised lightly upon the score, wreathed in night mist. I thought this a very fine interpretation indeed.

The Albrecht was the boyish, short-back-and-sides Osmay Molina, sensitive in playing, sure in dancing. The corps de ballet, as peasants and ghosts, were sensitive in everything. The National Ballet of Cuba was, once more, a fine and welcome ensemble.

Clement Crisp

The National Ballet of Cuba's tour visits Le Mans, Lausanne, Avignon, Montpellier and Lyons, where it ends on October 18.

MUSIC

Minus the Rattle and roll factor

No one attending Sakari Oramo's inaugural concert as principal conductor of the City of Birmingham Symphony Orchestra last Thursday can have had much idea what to expect. Oramo has not yet visited Birmingham enough to establish a presence – he is scarcely known outside his native Finland – and his conducting career spans a mere five years. His programmes for the coming season show a taste for Russian and mid-century English music, neither of which found favour with his predecessor, Sir Simon Rattle.

So there was reason to hope this opening concert at Symphony Hall, comprising works by Sibelius, Dutilleux and Mahler, would offer clues to his musical personality. We emerged little the wiser. Oramo's platform manner is stiff, almost robotic. He knows how to beat time; and where the timbres on the page are distinct, he can reproduce them exactly. But he is no colourist, and his sense of orchestral drama amounts to little more than setting one block against another. After 18 years of Rattle, the CBSO was ready for a change of style – but whether Oramo's blunt objectivity was the right choice is open to question. He has a lot to prove.

So does the CBSO. Did Rattle really shape it into a world-class orchestra, or did it merely travel the world on his coat-tails? Judging by this concert, one suspects the latter. Minus the Rattle factor, the CBSO sounds like most other regional orchestras – hard-working but undernourished.

By opening with Sibelius's *The Bard*, Oramo stated his country's claim to be a wellspring of 20th century musical culture, while bringing to our attention one of the most quizzical tône-poems in symphonic literature. The exchanges between harp and various instrumental groupings imply a language beyond words – which the CBSO's carefully prepared reading preserved, albeit within a softer, less elliptical framework than the music ideally requires.

Judging by his control of the glistening shards of sound in Dutilleux's Violin Concerto (*L'arbre des songes*, 1985), Oramo has most to offer in the music of our time. This is a modern classic – a masterclass in the balance of form and content, fantasy and craft. And in his keening and weaving of the solo part, Olivier Charlier persuaded us that, for all Dutilleux's disavowal of virtuoso ambitions, the music contains as much gypsy-like songfulness as glades of contemplation: richly rewarding.

Which is more than can be said for Mahler's First Symphony after the interval. In its brassy glare, unyielding turn of phrase and crude swelling up to climaxes, Oramo's performance recalled many of the features of his Sibelius Second Symphony in January. It was an unseemly thrash, redeemed only by an insidiously slow dance of death. His slack grasp of the dream-interludes suggested a conductor with little sense of musical tension, and Mahler's finale came across as loud, raw, untutored. What do we deduce from all this? Simply that Birmingham has catapulted a musician way beyond his station.

Andrew Clark

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INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen. Cast includes Heinz Kruse, Jeannine Altmeyer and Henk Smit; Sep 30

BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-212 3333
City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Schubert, Mozart and Strauss; Sep 29, 30

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
The Winter Queen: The Life of Elizabeth of Bohemia. Includes around 50 paintings, plus a selection of engravings and medals; to Oct 4

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Radio Symphony Orchestra Frankfurt: conducted by Hugh Wolff in Beethoven's Missa solemnis; Sep 30

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Sep 29; Oct 1, Oct 3

LISBON

OPERA
Expo '98, May 22-Sep 30
O Corvo Branco: the world premiere of a new opera by Philip Glass will mark the end of the arts programme of Expo '98. The production is directed by Bob Wilson, and is a co-production with the Grand Théâtre de Genève; Jules Vernes Auditorium; Sep 29

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Richard Hickox conducts a series of works by Bruch; Oct 1, 3

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
Chagall: Love and the Stage. A series of monumental mural paintings created in 1920 for the State Yiddish Chamber Theatre in Moscow forms the centrepiece of this exhibition. It is shown alongside preparatory drawings and sketches; to Oct 4

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 30; Oct 3

Royal Albert Hall
Tel: 44-171-5898212
● Die Walküre: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Rita Cullis, Kim Begley, Stig Andersen and Hildegard Behrens; Sep 29
● Siegfried: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Stig Andersen, Graham Clark and Anne Evans; Oct 1

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
Hallé Orchestra: conducted by Owain Arwel Hughes in works by Vaughan Williams, Holst and Elgar; Oct 1

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Simone Young in works by Janáček, Martinu and Dvořák; Sep 30

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Kurt Masur conducts Beethoven - The Complete Symphonic Cycle. Programme V; Oct 1, 2, 3

EXHIBITIONS
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Bonnard: (1867-1947): a major retrospective, including over 100 paintings produced between the 1890s and 1940s. These number amongst them landscapes, still lifes, a series of nudes, and several self-portraits; to Oct 1

Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries. Includes works by Rembrandt and Dürer, with particular emphasis on the modernists Matisse and Picasso; to Jan 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Aida: by Verdi. Plácido Domingo conducts a production by Sonja Frisell, with a cast starring Maria Guleghina and Vladimir Bogachov; Sep 29; Oct 3

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Christof Perick in works by Strauss and Mahler; Oct 1

DANCE
Théâtre des Champs Elysées
Tel: 33-1-49525050
Cuban National Ballet: Swan Lake, in a staging by Alicia Alonso; Sep 29

EXHIBITION
Couvent des Cordeliers
Tel: 33-1-4046 0547
S'asseoir au XXème siècle: display devoted to the evolution of the chair, including major examples of 20th century design; from Sep 29 to Dec 17

OPERA
Théâtre des Champs Elysées
Tel: 33-1-49525050
Eugene Onegin: by Tchaikovsky. European Union Opera conducted by Vladimir Jurowski in a staging by Nikolaus Lehnhoff; Oct 5

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
A Streetcar Named Desire: world premiere of a new opera by André Previn, with a libretto by Philip Littell based on Tennessee Williams' play. The staging is by Colin Graham, with designs by Michael Yeargan. André Previn conducts the September performances (Patrick Summers in October). Cast includes Renée Fleming (Susannah Glanville in Oct) and Rodney Gilfry; Sep 29; Oct 2, 4

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● International Surrealism: works from the collection by artists including Dali, Duchamp, Magritte, Ernst and Giacometti; to Oct 5
● Man Ray: Objects of My Affection. Album comprising 36 sheets compiled in 1944 when Man Ray was working in Hollywood; to Oct 5

TORONTO

OPERA
Canadian Opera Company, Hummingbird Centre
Tel: 1-416-363 6671
www.coc.ca
Tosca: by Puccini. Conducted by Richard Bradshaw in a staging by David William. Cast includes Sylvie Valayre and César Hernández; Sep 29; Oct 1, 4

ZURICH

EXHIBITIONS
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse, Picasso, Braque, Léger and Rouault; to Jan 3

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● **CNN International**
Monday to Friday, GMT:

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13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

PETER MARTIN

Greater expectations

Bankruptcy no longer carries the stigma suffered by Little Dorrit, but today's financial engineers must be made more accountable

Close by the FT's London office is a small, rather shabby public garden. It makes a poignant spot from which to contemplate the crisis and rescue of Long-Term Capital Management, the hedge fund based in Greenwich, Connecticut that last week succumbed to a mountain of debt.

The garden is the site of the Marshalsea debtors' prison, immortalised in Dickens' novel *Little Dorrit*. The prison has long gone. The overgrown state of the garden that stands in its place symbolises how hopelessly outdated is the principle of imprisonment for debt and the notion of a lifetime obligation to repay.

By contrast, Long-Term Capital Management symbolises the triumph of a newer principle: limited liability, the right to walk away. It is not just the hedge fund's own status as a limited liability partnership that signals this triumph. Rather, it is the layer upon layer of attenuated responsibility that the crisis reveals.

The Federal Reserve, ultimate guarantor of the US financial system, encouraged a rescue (limiting the threat to the fund and its counterparties) but did not itself take part (limiting its own political exposure). Options – the type of derivatives market in which Long-Term Capital Management's rocket scientists earned their Nobel prizes – have as their essential component a limit on the exposure of their purchasers. The banks that lent the hedge fund many billions of dollars are themselves limited liability institutions. And any individual investors in the fund who find themselves pushed into bankruptcy by their losses will suffer only passing inconvenience and little social stigma.

That none of the participants is threatened with life in a debtor's prison stems from a choice made 150 years ago. Starting around the 1840s, developed economies made a historic shift towards limited liability and permissive bankruptcy laws, and away from locking up debtors or bankrupts until they had paid creditors every penny. There were powerful reasons for this choice. Governments in northern Europe and the US made it with the explicit intention of fostering entrepreneurial behaviour. They were rewarded with an explosion of economic activity. And they ended a hateful system which condemned Little Dorrit to be (in the words of Dickens' sub-title) "A child of the Marshalsea".

In the intervening century and a half, we have come to take this shift for granted. The limits on liability are seen not as an explicit trade off for creative economic activity, but as an inherited right. They continue to be pushed further into nooks and crannies of the economy. Lloyd's of London, whose structure pre-dated the corporate law reforms of the 1840s, is still in the process of shifting away from unlimited personal liability. Accountancy firms are making a similar switch, both for their individual partners and for their collective liabilities for their opinions. Bankruptcy laws get weaker whenever they are revised.

The mountain of speculative, highly leveraged transactions undertaken by hedge funds is merely the most visible monument of this transformation. They raise a legitimate question for public policy, however. If the broader purpose of the relief of personal responsibility for debt is not being achieved – if it has produced excessive speculation and moral hazard – then there is scope for questioning the social and economic efficacy of the change. No one would advocate a return to the Marshalsea. But restrictions on the scale of speculative borrowing are surely worth considering, if they can be effectively enforced.

That is only part of the story. There is also a question for individual business managers to consider. The status and sanctity of debt has clearly changed over the past century and a half. It has changed most dramatically since the inauguration of the junk bond era little more than a decade ago. Implicit contracts were broken in the wave of debt issuance, as companies rushed towards more highly geared efficient capital structures. Leveraged buyouts loaded companies down with debt, drastically changing the value of outstanding obligations.

As business school professors tell today's students, debt has an implicit option embedded in it – you can choose not to repay. The option is more clearly visible than ever before. Arguably, it is more often voluntarily exercised than in the past. And it is probably under-priced.

Business practice has not changed to reflect the contingent nature of modern debt. Investors, underwriters and lenders still behave as if it were a sacrosanct obligation. But in truth the legal framework has changed and – more importantly – so has the mental commitment of borrowers. Lending practices should reflect this shift. Too often they do not.

The Marshalsea has one other reminder to offer. Whatever the theories that won those Nobel prizes say, people do not make entirely rational calculations of risk and reward. Despite the draconian nature of history's punishment of debtors, past investors were just as capable as today's of punting wildly on an unsure thing. Human nature has not changed, even if laws and obligations have altered drastically. Little Dorrit, who grew up among the failed dreamers of the Marshalsea, would find herself quite at home in Greenwich, Connecticut.

peter.martin@FT.com

LETTERS TO THE EDITOR

Majority of UK companies would choose Tory Emu option, if asked

From Mr Francis Maude MP.

Sir, Your front page item "Most UK companies favour joining Emu" (September 28) manages to misinterpret the results of your own survey. It is simply absurd to describe as a "severe blow to the Conservative leadership" a survey showing that 74 per cent of British business is opposed to immediate entry to the euro zone.

Neither does your poll bear out the bald assertion that two-thirds of British companies want the UK to adopt the single currency "after the next general election *at the latest*" (emphasis added).

It shows that, given the choice of joining now, after the next general election, or never, much of British business chose the middle option: at some unspecified time after the next general election. The Conservative party offers another centre group option: the option joining in the parliament after next.

Your poll does not even say what "after the next general election" means. Immediately after? Ten years after? To suggest, therefore, that 37 per cent "support joining the euro after the next general election *at the latest*" is misleading sensationalism. The option we offer, possibly to join in seven or eight years' time, is "after the next general election" too. And it is clear from the quoted remarks of those who supported the middle option that they share exactly the concerns that have led the Conservative party to its current policy. I suspect that if they had been offered the option that most nearly matches our policy, of not joining at least until we have had a chance to see it working in bad times as well as good, very many would have chosen it.

There is no question of our position producing isolation from the business mainstream. We say not now. We do not say never. Your poll suggests that British business thinks this is the sensible approach. We are grateful for their support.

Francis Maude,
shadow chancellor,
House of Commons,
London SW1A 0AA, UK

From Lord Clinton-Davis and others.

Sir, It was encouraging to note in your survey that there is growing support within business for the introduction of the euro ("Two-thirds of UK companies want Britain to join Emu"). We believe, however, that there needs to be a deeper understanding among businesses in the UK of how the European Union works in every area, not just the single currency.

That is why we, the undersigned, lend our unequivocal support to the fellowship programme currently under development by Europe 21. This will provide the chance for young people employed in British businesses to spend up to one year working on secondment in one of the EU's institutions.

In our experience, companies in the rest of the EU tend to have a higher degree of familiarity with the workings of those institutional structures, arguably providing them with a competitive advantage.

After decades of insularity, we need to catch up with our European partners and develop stronger links with Brussels. Europe 21 is providing a valuable first step.

Lord Clinton-Davis, chairman, Europe 21,
Lord Hunt of the Wirral, senior partner, Beachcroft Stanleys,
Simon Holmes, partner, S.J. Berwin & Co,
Sir David Alliance, chairman, Coats Vyella,
Amir Bhatia, chairman, The Forbes Trust,
Mike Rake, senior partner, KPMG,
Stephen O'Brien, chief executive, London First,
Stephen Lock, director, Ludgate Communications,
Michael Doherty, managing director, McNicholas,
Lord Haskins, chairman, Northern Foods,
Gordon Adam MEP,
Alan Donnelly MEP,
Neil Kinnock, commissioner to the EU,
Peter Temple-Morris MP,
Lord Tomlinson of Walsall MEP

Short-term cover under trades description

From Mr Mark Aarons.

Sir, Amid the debris left behind following the collapse of Long-Term Capital Management, should we in the UK at least take some comfort in the knowledge that a recourse to devastated shareholders of the fund would have been available under the Trades Description Act? A more legally secure definition of the fund's activities during its brief lifetime might have been Short-Term Capital.

Mark Aarons,
3 St. Regis Heights,
Firecrest,
London NW3 7NE, UK

From Mr Aaron Overy.

Sir, Does the success of the Federal Reserve in securing a bail out for Long-Term Capital Management mean that the Bank of England will be stepping in to compensate me for my dreadful trading decisions?

Aaron Overy,
4 Burmester Road,
Tooting,
London SW17 0JN, UK

No sign of inflationary pressure build-up

From Mr David Hillier.

Sir, If there's one thing that is clear from all the statistics, surveys, and anecdotal evidence available to UK economists it is that the economy is slowing down fairly rapidly. What is more, the slowdown is across the board rather than limited to manufacturing.

Add in the impact that the crisis in emerging markets will have on output and prices over the next year, and it seems odd to be even thinking about interest rate rises, let alone writing about them.

But against this background your paper's crusade for tighter policy means front page space is devoted to small upward revisions to gross domestic product and the possibility that the output gap might be larger than we previously thought ("Bank may be deterred from rate cut", September 25): If that is as frightening as you suggest, where is the associated inflation or build up in inflationary pressures?

Earnings growth has fallen from a near 6 per cent peak in March to 4.3 per cent in July. Underlying inflation is back at the 2.5 per cent target, harmonised inflation is lower still at 1.3 per cent. A weaker pound might increase inflationary pressures over the next year, but if incomes and employment are falling why should consumers accept higher prices? If there's a danger now it is that policy will not be loosened quickly enough, rather than that policy will be loosened too soon.

David Hillier,
chief UK economist,
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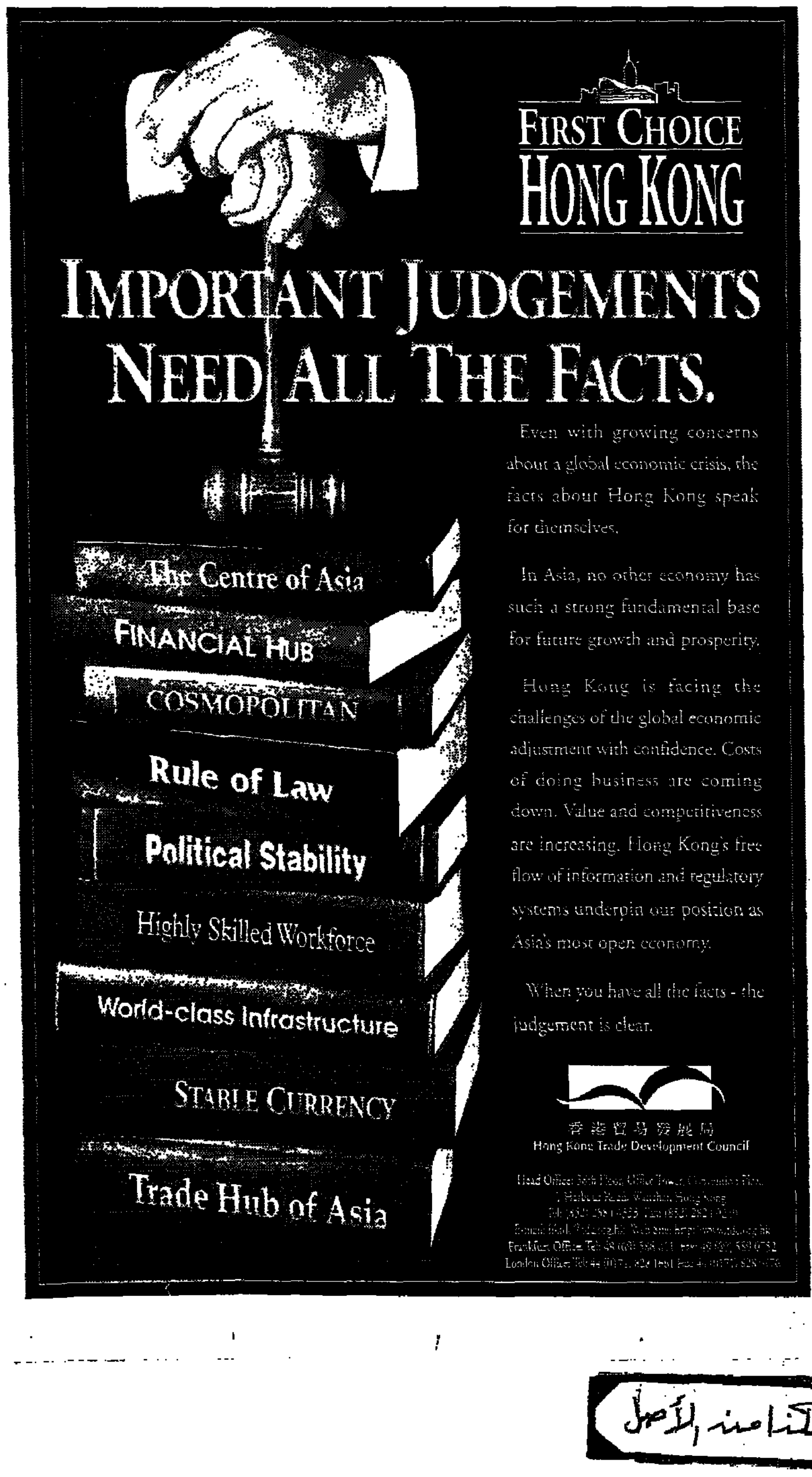

PERSONAL VIEW DEVESH KAPUR and ROBERT WADE

Paying for privilege

As financial demands on the World Bank soar, Group of Seven countries should start bearing their fair share of the burden

One of the most contentious issues at the annual meeting of the World Bank and the International Monetary Fund next month will be a proposal to raise the price of World Bank loans. The proposal, made by the Bank's managers, was accepted by the board in late July after a vote that was the closest in the organisation's history and one of its most contentious. The idea must now be approved by the governors at the annual meeting.

The managers want to raise the cost of borrowing to plugthe widening gap between the Bank's net income and the demands placed on it. Net income has been fairly constant at around $1bn a year. But net disbursements in the past year have been almost three times higher than was expected before the Asian crisis.

This increase means the Bank has to raise its reserves and its loan loss provisions, leaving less money for other purposes. These include reducing charges to borrowers who repay on time, making *ad hoc* grants to states ranging from the former Soviet Union to Rwanda and transferring money both to the Bank's soft-loan affiliate, the International Development Association (IDA) and to the fund for Highly Indebted Poor Countries. In short, demands on the Bank's purse are piling up.

So why has the proposal to raise charges – and hence provide money to meet more of these demands – been so contentious? For one thing, many of the Bank's borrowers, who would have to pay more, are facing extreme economic distress. For another, they think rich, non-borrowing countries are not bearing their fair share of the Bank's growing burden and, say the borrowers, should accept more of the cost by agreeing to increase the Bank's capital.

A capital increase would shift the burden because it would mean the Bank would not have to transfer so much net income to reserves when disbursements rise, leaving more for other purposes. It accords with the basic governance principle of the Bretton Woods institutions, that those who exercise power should be held accountable through the wallet by paying a share of the costs roughly in proportion to their share of voting rights.

Lightening the load: rich states should increase contributions

The problem is that this principle has been eroded over time. In practice the amount of money paid into the World Bank from the budgets of the rich member countries is now nearly zero.

Those who exercise power should be held accountable by paying a share of the costs roughly in proportion to their share of voting rights

The World Bank's large reserves, together with the negligible default rate among its borrowers, mean that the liabilities of rich countries are also, in practice, almost zero. Yet power, as expressed in voting rights, continues to be heavily skewed towards rich countries. The Group of Seven large industrial countries have a combined share of 43 per cent, and their influence costs them practically nothing. They can demand more and more environmental and social assessments, push for more special projects in places of geopolitical concern to them without facing the slightest risk of having to pay more. The borrowers have to pay.

This is manifestly unjust. To correct it, the rich countries should increase the Bank's capital. But that is not all. The other major stakeholder group in the Bank – managers and staff – should also bear some of the cost of raising net income. The Bank's administrative budget has been growing in leaps and bounds. In real terms, it is now twice as high per project as it was during the 1970s and almost five times higher per dollar of outstanding loans than at the European Investment Bank. This growth reflects both the Bank's ever-proliferating agenda (environmental studies and the rest of it) plus an enormous expansion in the costs of the board, the president's office, endless re-organisations, and public relations. The Bank simply passes these costs on to borrowers. It should do more to restrain them.

The annual meeting provides an opportunity to rethink the proposal to raise the price of its loans:

- Rich countries should agree to a modest capital increase of $20bn. Over five years, this imposes a burden of no more than $400m a year on the G7, of which the US share would be about $130m annually (three times the cost of the Starr report). This would help restore the balance between the distribution of power and the costs of "ownership".
- There should be an immediate 10 per cent cut in the administrative budget and zero growth over the next four years.
- Borrowing countries should agree to a modest increase in charges, but make it a differentiated increase. At present the Bank charges the same rate for all borrowers. This policy penalises countries that better manage their economies, and it diffuses among all borrowers, including the poorest, the risks of Bank lending to high-risk countries of geopolitical interest to the major shareholders (such as Russia).
- The Bank should be asked to commit itself to a subsidiarity principle. Wherever a problem and potential benefits are clearly regional, regional multilateral organisations should bear the burden first. Only where they are weak should a global institution like the Bank fill the breach. That means it would by and large stay out o. post-conflict assistance (for example, to Bosnia or Liberia); and give higher priority to the provision of global public goods, such as research on tropical diseases, tropical agriculture, and the oceans.

By spreading the costs of raising the Bank's net income among all stakeholders, not just borrowing countries, these proposals can help to restore the basic governance principle that those who exercise power should pay for doing so.

Devesh Kapur is co-author of The World Bank: Its First Half Century, *and assistant professor of government at Harvard University. Robert Wade is author of a forthcoming book on the World Bank and professor of political science at Brown University*

FINANCIAL TIMES
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Triangle of social democracy

With the victory of the Social Democrats in Germany, the centre-left now rules in most of the European Union. Indeed, for the first time in postwar history, the Union's three most influential members, Germany, France and Britain, are governed by Social Democrats. This undoubtedly brings new opportunities for co-operation between them.

But before assuming that a new constellation of centre-left forces is about to click smoothly into place, it is as well to remember how loose a term centre-left is in Europe. Each country has its own political centre of gravity. Britain's is well to the right of France's, with Germany's somewhere in between. Added to this is the importance of the leaders' differing personalities, holds over their own party, parliamentary majorities and allies. In all these areas, question marks still hang over the new chancellor, Gerhard Schröder.

During his campaign he talked of the need to bring Britain into the Franco-German relationship – and subsequently reassured a nervous Paris that he values ties across the Rhine more than ties across the North Sea. Nonetheless, Mr Schröder is from northern Germany like his SPD predecessor, Helmut Schmidt, and is clearly ready for closer relations with Britain as Mr Schmidt once was.

The three leaders' most likely area of common action is over unemployment. They are restrained from pumping up demand by the Stability Pact, to which the UK has effectively bound itself as tightly as any member of the euro-zone. The culture of fiscal responsibility is also deeply ingrained in most Germans, even of the left.

But most social democrats do not like to leave everything to bankers. Germany, especially if Oskar Lafontaine becomes finance minister, is likely to be more open to French calls to develop a political counterweight to the European Central Bank, and to give some political representation to the euro-zone in the outside world.

Domestically, there is scope for greater co-operation on supply-side remedies to unemployment through increasing the flexibility of labour markets. There is no EU policy on this, only a recent commitment by member states to compare labour policies and learn from each other. So far, this has not achieved much. But it may be that centre-left governments will feel less inhibited about taking lessons from each other than from governments of different political hues.

The prospect of a Green becoming Germany's next foreign minister need not rock the boat. Most German Greens are now reconciled to Nato, and on some issues like Kosovo could become hawkish proponents for Nato intervention to stop the killing there.

But shared ideology will bump against the hard rock of national interest as the EU turns this autumn to negotiating its Agenda 2000 funding reforms. Here Tony Blair and Lionel Jospin will find Mr Schröder adamant in demanding a cut in Germany's EU contribution. Germany became harder-nosed in pursuit of its interests in Helmut Kohl's final year, when he was no longer the "great facilitator" of EU deals. Messrs Blair and Jospin will be lucky if their appeals to socialist solidarity can mollify Mr Schröder when it comes to money.

Slovak hopes

The black sheep of central Europe wants to return to the fold. The rejection by Slovak voters of the divisive and undemocratic policies pursued by Vladimir Meciar, the prime minister, is the first decisive signal that the country wishes to rejoin the fast track towards integration with the west. The victory of the opposition parties in the weekend's general election deserves a positive response from the European Union and Washington.

Mr Meciar earned his place in history as the architect of Slovakia's independence, established in the velvet divorce from the Czech Republic in late 1992. But his record since has damaged its interests, leaving Slovakia isolated as the only country in the region rejected for early membership of Nato and the EU for political reasons.

The poll is only the first step. Mikulas Dzurinda, the untried leader of the Slovak Democratic Coalition, must now show that he can hold together the disparate opposition forces. Their hard-won unity must be turned to positive use to develop democratic practices and the rule of law.

Economic and political differences, and personal ambition, will doubtless drive the parties apart eventually. But at least in the next parliament they must unite behind a mission to complete the transformation of Slovakia to a market economy, to end Mr Meciar's crony capitalism and to build respect for democracy. If the reforms are forthcoming, the EU must make sure that the way back to the fast track is no longer blocked.

Oslo, again

Once more into the breach. Yesterday, President Bill Clinton managed to bring together at the White House Benjamin Netanyahu, Israel's prime minister, and Yassir Arafat, the Palestinian leader, in yet another US attempt to break the 19-month-old deadlock in the Oslo peace process.

Until yesterday, the two leaders had not met face to face for more than a year. And there is some reason to suppose that agreement may emerge on a modest US plan for an Israeli troop pull-back from the West Bank. Yet there is little reason to hope that this will reopen the path towards a permanent settlement of the Israel/Palestine dispute.

Washington wants a phased Israeli withdrawal from 13 per cent of the West Bank, and a "time-out" on Jewish settlement building on occupied Arab land, as a prelude to "final status" negotiations. These would include the fate of the settlements and occupied east Jerusalem, the return of more West Bank land to the Palestinians, and whether it will be recognised as an independent state.

Mr Arafat reluctantly accepted the deal in February. He was expecting at least 30 per cent of the territory at this overdue stage of the "interim" Oslo accord. By early May, Madeleine Albright, US secretary of state, gave Mr Netanyahu an ultimatum. He ignored her – instead journeying to the US for talks with the powerful American Jewish lobby. Israeli officials believed the likelihood of American pressure, with Mr Clinton absorbed by his domestic difficulties and congressional elections near, was practically nil.

They were, and are, almost certainly right. In any case, Mr Netanyahu was always likely to agree to an interim bargain very much in Israel's favour. If an agreement is reached now, it is largely because he and the Americans wish to dissuade Mr Arafat from announcing to the UN general assembly that on May 4 next year – the date set by the 1993 Oslo framework deal for concluding final status talks – he will declare a Palestinian state unilaterally if no final agreement has been reached.

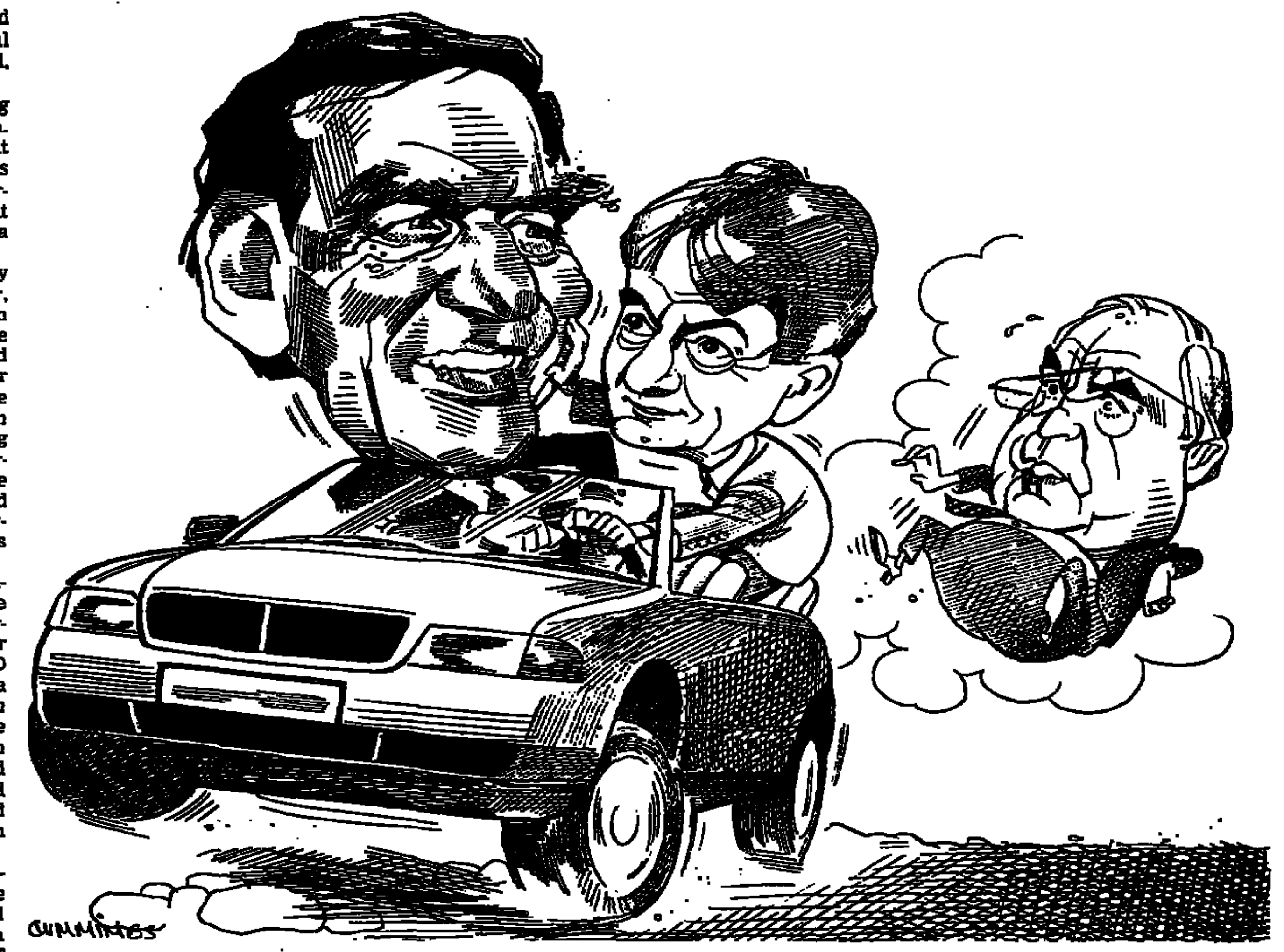
Preliminary reports yesterday suggested Mr Arafat had agreed to leave that threat out of the speech he was due to make to the assembly last night. But a minimal pull-back now will not be enough. A real breakthrough needs Israel to be persuaded that its own security requires a balanced settlement with the Palestinians – which means a Palestinian state. The Netanyahu government instead envisages administrative self-government on half the West Bank or a tenth of historic Palestine, broken up by Jewish settlements into isolated Bantustans, with Arab east Jerusalem under Israeli sovereignty – in short, a blueprint for another generation of strife.

With few arms at his disposal, Mr Arafat's threat to declare a state was originally a ploy. It was meant to focus Israelis on whether they could stomach a needless fight to reoccupy West Bank towns already ceded to the Palestinians, and Americans on whether they could afford the collapse of Oslo and a needless return to regional conflict.

Unless the US can get Israel to agree not only on a small pull-back but to negotiate a permanent deal in good faith, both these outcomes remain possibilities as the May 4 deadline looms.

Schröder: driving on the left?

Peter Norman looks at how easy it will be to form a red-green coalition and considers the policies the new German government is likely to adopt



As soon as Gerhard Schröder's electoral triumph was assured, his rhetoric changed.

Suddenly, he started talking about the "new centre" again. Addressing jubilant supporters at the headquarters of Germany's Social Democratic Party, Germany's next chancellor said that he wanted to build support for a *Neue Mitte* of German politics.

It is the sort of thing Tony Blair, the UK prime minister, likes to talk about, even (when he has the time) Bill Clinton, the US president. But the phrase had been largely missing from Mr Schröder's public speeches in the latter part of the SPD's election campaign. Then, in his big open-air rallies intended primarily to rally the party faithful, he would call for social justice and promise to roll back the supply-side reforms of Helmut Kohl's last two years in power.

The prospect of forming a stable government seems to have made all the difference. Yesterday morning, it became clear that a coalition between the SPD and the Greens would have a comfortable 21-seat majority in the Bundestag, the lower house of parliament. The momentum seems to be unstoppable. Around lunchtime, both parties declared they were ready to negotiate and agreed to the first contacts on Friday.

It would be the first ever red-green coalition in Bonn and the first time a green party would have significant representation in any of the big economies of the west.

But what would a red-green government actually be like? Would Mr Schröder be forced to be a leftwing leader of a leftwing coalition, pushing Germany down a quasi-socialist path after 16 years of Helmut Kohl's centre-right government? Or would Mr Schröder, as chancellor, be able to adopt a more pragmatic, business-friendly approach, as he has in Lower Saxony, where he has governed with an absolute majority since 1994?

Yesterday, Mr Schröder went out of his way to show that he would be pragmatic and to be reassuring to middle-class voters who had abandoned old loyalties and supported the SPD for the first time.

He stressed his commitment to economic stability, to law and order and to continuity in foreign policy. He reaffirmed that his economics minister would be Jost Stollmann, a former computer entrepreneur who does not belong to any party and who riled SPD traditionalists and trade unionists in the election campaign with pleas for welfare reform and greater individualism.

Mr Schröder also said a red-green coalition would be the "logical consequence of the election result". It seems like the most likely. The most plausible alternative, a grand coalition with the Christian Democratic Union, was firmly rejected by all the parties of Mr Kohl's outgoing coalition.

The Green leaders made no secret yesterday of their wish to be in government, setting no conditions for coalition talks. For his part, Mr Schröder promised to be cautious when negotiating with the Greens saying talks would be pursued with "care rather than speed".

He has little need to hurry, since he enters the negotiations from a position of strength: his party sharply increased its share of the vote to 40.9 per cent from 36.4 per cent four years ago, while the Green share dropped to 6.7 per cent from 7.3 per cent.

There are also many areas of broad agreement between the two parties. Both SPD and Greens are pledged to cut unemployment and have plans for "ecological tax reform" which would put taxes on the use of energy to finance a reduction of Germany's social security levies that boost its high non-wage labour costs.

Both SPD and Greens plan reform of Germany's complex and inequitable tax system, but with only limited cuts in top tax rates from 53 per cent to 49 per cent and 45 per cent respectively. Both want to channel more support to families. Both want more spent on education and research and development.

Both want to liberalise Germany's restrictive nationality laws. Both want to run down the peaceful use of nuclear energy, with the Greens setting a faster pace than the SPD. In foreign affairs, the Green party has managed gradually to dilute its once strongly pacifist stance.

An eventual red-green government would be more geared to redistributing wealth than Mr Kohl's coalition in the past two years. But it may not be a drastic departure from other German governments. Voters with longer memories would be reminded of the Kohl governments of the 1980s which pursued policies of limited tax reduction and increased the scope of Germany's already generous welfare state.

All the same, none of this means a red-green coalition is home and dry. Both sides may have difficulties in reaching an accommodation.

The SPD and Green programmes differ on many issues, such as whether to support new motorways (SPD for, Green against) and whether to build the revolutionary Transrapid magnetic levitation railway between Hamburg and Berlin (SPD for, Green against).

Mr Schröder, as a strong supporter of industry and the motor car, is an object of suspicion for many Greens.

And for its part, the SPD has mixed feelings about the Greens. On Sunday night, the SPD leader, Oskar Lafontaine, let slip that his party's supporters were split 50-50 over which coalition partner to pursue, with half wanting a "grand coalition" with Mr Kohl's outgoing CDU.

A problem for the SPD is that the Green party in the Bonn parliament gives a deceptively moderate impression. It is dominated by pragmatic *Realos* such as Joschka Fischer, its leader in the Bundestag, the lower house of parliament. The Green rank and file, who have a big say in party decisions, are more leftwing. Any coalition agreement would have to be passed by a national party conference.

A problem for the SPD is that the Greens in parliament give a deceptively moderate impression

Considering these tensions, how might a red-green coalition in Bonn work in practice? One guide is the recent history of similar coalitions in state governments. Certainly, decision-making can be slow, as it proved in Hamburg last year, when negotiating a red-green coalition for the city state took seven weeks.

Another gloomy example comes from North Rhine Westphalia, Germany's biggest state. For three years from May 1995, the red-green government in Düsseldorf was often in turmoil over a giant project to develop a brown coal field in the west of the state.

But that case also shows how such coalitions can also come good. Since the Spring the coalition has been calm, reflecting the appointment of Wolfgang Clement, a close ally of Mr Schröder, as state prime minister. The change of leadership in Düsseldorf was of huge importance to Mr Schröder. "His greatest strategic success was being able to secure the change of prime minister in North Rhine Westphalia," says Roland Berger, the management consultant and an occasional adviser to Mr Schröder. "Wolfgang Clement has become the model of a modernising SPD leader". He shows how red-green governments can be house-trained.

Mr Schröder too is an old hand at working with the Greens. His first administration in Lower Saxony between 1990 and 1994 was a coalition with the Greens. Jürgen Trittin, one of the Green leaders to head the negotiations with the SPD, was a cabinet minister in that government. Mr Trittin recalled those years as "the best of times" with the red-green government pushing through reforms of schools, universities and the police.

Despite his pro-business reputation, Mr Schröder also sees merit in red-green coalitions. "There is red-green co-operation at the level of local politics in all federal states and there are red-green governments in several important states. The day-to-day experience of people is that it works," he told the Financial Times earlier this year.

The Greens, he said, were "also very rational when dealing with concrete problems". But it was important to hammer out an unambiguous coalition agreement. "You have to agree on a precise, rational programme and allow no diversions or the postponing of difficult decisions. That is a mistake because you create an impression of incompetence."

A further condition was that the SPD should "occupy those ministries which in the broadest sense concern the nation's security". That would mean economy and finance, home affairs, defence and justice.

Although the division of jobs will come only after all other aspects of the coalition treaty have been agreed, it is an open secret in Bonn that Mr Schröder would have no worries about Mr Fischer being Germany's next foreign minister. The environment ministry would most probably go to Mr Trittin while another ministry – health is one possibility – would possibly be taken by a female Green politician.

Yesterday, when asked about the prospects for the government if it were a red-green coalition, Mr Schröder cited his own administration in Lower Saxony between 1990 and 1994 as a model of "absolute success".

For Greens, however, there was, however, an ominous subtext in his remarks. Half tongue in cheek, Mr Schröder went to say that the sign of its success was that he was re-elected state prime minister in 1994 after four years with increased support for the SPD and without having to accept a new red-green coalition. "I make these remarks as an observation, not as a threat," a smiling Mr Schröder said. But the implications were clear.

Mr Schröder sees a red-green coalition at national level as a step towards making the SPD Germany's natural party of government. When confirmed chancellor next month, Mr Schröder will only be the third Social Democratic leader of Germany since the second world war. He is determined not to be the last.

OBSERVER

Bisky is back in black

Germany's Bundestag has been about as colourful as a night out in Bonn since the Green party *swapped sandals and sarongs* for the Armani-clad political mainstream. But all that could change now the Party of Democratic Socialism, the heirs to East Germany's Communists, are back in the lower house. The party's hard-core support includes a vigorous punk rock tendency; one of the PDS's new parliamentary posse sports a red and green hairdo. Bullish party leader Lothar Bisky, elated and exhausted after his party's unheralded success, jazzed up his all-black outfit with a fetching tartan tie.

It's not just that Bisky, a former Communist party official, has a thing about Caledonian style. Recently returned from a short vacation in Scotland, he says he encountered any number of political kindred spirits. East Germans and Scots, he says, have lots in common: "Like us they have a strange history and the problems of a minority seeking acceptance."

Eastern Germany, like Scotland, certainly lies somewhere to the left of the great political divide. The PDS increased its share of the vote on Sunday despite being vilified by the mainstream, and largely west German, parties.

Bisky's opponents will be hoping that the pugnacious former Communist party official now trips up. But the man himself seems well prepared. Another recent addition to his wardrobe is a pair of solid Doc *Marten shoes. Just right for a bit* of foot-stamping.

Tongue tied

The burghers of Schleswig-Holstein are at it again. On the day Germany stepped forward into a brave new world of centrist politics, the country's northern-most state shuffled backwards. A majority of the electorate voted to reverse reforms designed to bring modernity and simplicity to the language of Luther and Goethe.

The net result is that Schleswig-Holstein is out on a linguistic limb; schools in towns such as Bad Segeberg and Itzehoe will from now on teach a slightly different tongue to their counterparts in Germany's other 15 states – not to mention Austria and the German-speaking parts of Switzerland, Luxembourg and northern Italy.

It's not the first time Schleswig-Holstein has exasperated its neighbours. In the last century it was the subject of a border dispute so complex that it had Europe's finest minds reaching for cold towels. British statesman Lord Palmerston remarked that only three people had ever understood the Schleswig-Holstein problem: one was dead, one had gone mad, while Palmerston himself had forgotten the answer.

Capital punishment

Congratulations to CGEA-Onyx, a subsidiary of French utilities conglomerate Vivendi, for making the short-list for a FFr3.75bn waste treatment contract in Sydney. The company is pleased as punch to be in the running for a 25-year concession to collect tinnies and other trash from the streets of "the Australian capital". Should leave plenty of time to brush up on the geography.

Cash cow

In its bad old days as a state monopoly, British Telecommunications was always being accused of milking its customers. Nowadays it's a different story: chief executive Sir Peter Bonfield roams the globe trying to outsmart and undercut other phone companies.

Yesterday he popped up in Amsterdam, launching a mobile service claimed to be up to three-quarters cheaper than anything yet offered to the dialling Dutch.

The handset comes appropriately packaged in a milk carton – meant to stress that mobile phones have become a bit of a commodity – sold everywhere from department stores to toy shops. There's no lengthy form-filling: just unpack the dinky Motorola handset, push any button, and you're connected to Telfort, a joint venture between BT and the Dutch national railways.

Fighting for market share against the entrenched forces of privatised phone company KPN and a local offshoot of the UK's Vodafone, Telfort is going out of its way to make a splash. The milk carton gimmick is a good way to start. But keep an eye on the rate of churn.

Red Oyster Cult

Forget the financial argy-bargy in Tokyo. Lurching leasing companies and bombed-out banks are nothing compared with the threat faced by oyster farmers in Hiroshima Bay. Stocks of the succulent shellfish are threatened by a rising tide of red algae; in some areas, up to 90 per cent of oysters are reckoned to have been wiped out.

The algae bloom, which turns the sea a fetching shade of reddish-brown, is thought to thrive when the water is warm and salty. Thanks to an unusually calm typhoon season, conditions in Hiroshima are just about perfect. The area provides Japan with half its winter supplies of edible bivalves, so seafood connoisseurs as well as oyster farmers could be in for a lean spell. So much for offshore investments.

The Financial Times

100 years ago

Turkey's financial straits
Constantinople, 24th Sept. The penury in the Imperial Treasury is becoming very acute, and the discontent among the Turkish official class is increasing daily. The arsenal *hands, and in fact all minor* Government officials, have only received two months' pay this year. As this scarcity of funds is attributed to the expenditure on the preparations in connection with the approaching visit of the German Emperor, it naturally tends to increase the general discontent.-[Reuter]

50 years ago

European Economic Unity
Washington, Sept. 28. Sir Stafford Cripps, British Chancellor of the Exchequer, to-day called the 16 Nation Organisation for European Economic Co-operation "a beginning – not and end" towards European unity.

He stressed the difficulties that confronted the O.E.E.C. now working on the full four-year programme, but reviewing achievements so far reached said they "were a milestone in international co-operation." Britain, he said, was "prepared to face dislocations if they will lead to true and full economic co-operation."

FINANCIAL TIMES
TUESDAY SEPTEMBER 29 1998

THE LEX COLUMN

Fool's gold

The decision by Goldman Sachs to abandon its initial public offering leaves the investment bank's senior management with a good deal of egg on its face: how could Wall Street's smartest have misread the market so badly?

Goldman bravely asserts that this is only a temporary delay. It will try again when market conditions improve. But the fact that the firm will re-open the partnership in October shows that temporary is probably best defined in months, perhaps even years. That may be no bad thing. As many inside Goldman, as well as this column, have argued, the benefits of going public are probably outweighed by the risks to the bank's uniquely successful culture.

Either way, this enforced pause gives Goldman a chance to rethink to disentangle the financial benefits that flotation would have brought its partners from the strategic decision of whether to go public or not. One way of doing this might be to create an internal market for partnerships. That would allow older partners to sell their stakes for more than the book value they get at the moment, while providing young thrusters with a proxy for the equity packages available at rivals. Making such a market work will be tricky. But those Goldman partners who have just seen their dreams of getting four times book value disappear should have plenty of incentive to try.

Germany

After a negative campaign based on booting out Helmut Kohl at all costs, Gerhard Schröder must now define his own agenda. Without the same control over his party that Tony Blair wielded over Britain's Labour, Mr Schröder risks being beholden to the SPD's left-wing and, to a lesser extent, its likely Green coalition partners. With a grand coalition a receding possibility, the Christian Democrats will be unable to exercise much of a moderating influence on the new government's social spending plans.

But fears of inflationary tax-and-spend are overblown. Fiscal policy may well be more expansionary than under Theo Waigel, but will still be constrained by the European economic and monetary union stability pact; and monetary policy will, of course, be the European Central Bank's look-out.

Furthermore, the pressures for reform arising from the advent of the single European currency will only grow; the current upturn should not be allowed to mask the urgent need to make the German economy more flexible and competitive. Sweeping tax and welfare reforms that make Germany a better place to do business are unavoidable.

Soap-box promises to roll back the few supply-side reforms of the Kohl era, such as trimming generous pensions and sick pay, have hardly encouraged investors hoping for a business-friendly Chancellor. But if Mr Schröder is to deliver lower structural unemployment and make Germany's early experience of Emu a success, tough decisions cannot be shirked.

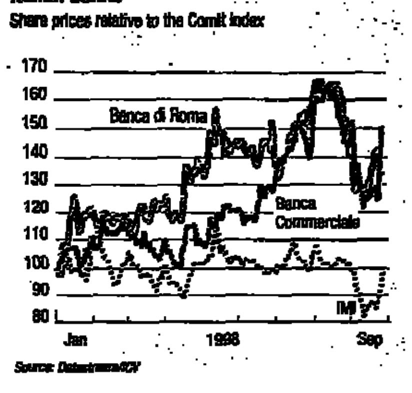
Internet stocks

Marvellous thing the internet. It can even magic away the global financial crisis. Despite gloom all around, most internet shares are back within spitting distance of their record highs. And eBay, an on-line auction house, soared over 160 per cent on its first day of trading last week.

Internet investors have long had an ability to disconnect from the rest of the world. Witness the dizzy valuations on the companies. Ironically, these may start to look less silly. As conventional industries slow, the web's explosive growth will become more attractive. Yesterday's figures from America Online, doyen of the sector, pointed relentlessly upwards. It now has more than 15m members and revenues should rise by nearly 50 per cent to $3.8bn in the year to next June. The group is profitable and cashflow positive, excluding acquisitions. Even better, both subscriber growth and advertising income are accelerating.

With a market capitalisation above $30bn and a growing aura of respectability – it has just appointed General Colin Powell to the board – AOL is becoming a conventional company. It is not there yet. Its accounting is too aggressive and internet technology changing too fast to be confident that its profits will be sustainable. But at eight times this year's revenues the valuation is only on a par with Pfizer, yet it is growing three times as fast. That can no longer be dismissed as mere hype.

Italian banks
Share prices relative to the Comit index



Source: Datastream/ICV

Italian banks

The Banca Commerciale Italiana saga gets ever more muddy. Deutsche Bank has acquired a 4½ per cent stake in Italy's fourth largest bank, while Commerzbank has increased its stake to 5 per cent. Surely a sign that the German banks are squaring up to bid for the bank? Not quite. A bid battle for BCI may be brewing. But the Germans are not the protagonists. They seem to be lining up behind two Italians – San Paolo-IMI in Deutsche's case, and Banca di Roma in Commerzbank's. Moreover, the marshalling of forces does not end there. Mediobanca is in the Banca di Roma camp, Paribas (with a 4 per cent stake) seems to be backing San Paolo. Rumour has it that Credit Suisse is also accumulating a stake.

This bizarre manoeuvring is in part a legacy of the spider's web of shareholdings through which Mediobanca used to exert hegemony over Italian finance. The battle for BCI, one of Mediobanca's core shareholders, is in a sense a final attempt to protect that old order.

But the elaborate construction of alliances is also a result of protectionist instincts by the Bank of Italy, the central bank. Its insistence on vetting stakes above 5 per cent hardly sits well with Italy's pro-European rhetoric. Nor is it good for Italian banking. The right approach would be to allow an open auction between local and foreign banks – and let the best industrial and financial solution prevail.

LINK BETWEEN ASAHI AND TOKAI PROMPTED BY PRESSURE OF FINANCIAL REFORMS

Japanese banks take steps to forge $450bn alliance

By Alexandra Harney and Paul Abrahams in Tokyo

Asahi Bank and Tokai Bank, two of Japan's largest commercial banks, are forging an alliance that could be the first step towards creating the country's second-largest bank with combined assets of Y61,200bn ($450bn).

The tie-up is the latest in a consolidation trend provoked by the banks' stretched balance sheets and the country's "Big Bang" financial reforms.

It came as a number of Japanese financial institutions revealed the scale of their exposure to Japan Leasing, the affiliate of Long-Term Credit Bank of Japan that went into bankruptcy on Sunday with outstanding liabilities of Y2,180bn.

LTCB itself, which under the latest agreement between the opposition and ruling Liberal Democratic Party will be nationalised, is owed Y255.6bn. Its shares fell 41 per cent to just Y14. Mitsubishi Trust is owed about Y145bn, while Sumitomo Trust's exposure is Y135bn, and that of Norinchukin, the central office of the agricultural credit unions, about Y120bn.

The Asahi-Tokai alliance appears to have been put together hastily. Hideo Ogasawara, president of Tokai Bank, said there was not sufficient time or funding to arrange a merger.

It is to be implemented in two stages. In the first stage, the banks would merge outlets and automatic teller machines, link the internal mail systems, and reorganise overseas operations.

In the second stage, the banks would establish a "multi-regional" holding company to include tie-ups with other financial institutions, including foreign groups. Tatsuro Ito, Asahi Bank president, said the members of this group were still a "blank sheet".

Some analysts suggested that capital adequacy problems might have triggered the announcement.

The two banks said that their first priority would be to restructure and to dispose of bad and problem loans without the help of public funds. They said Y50bn in cost savings would come from closing outlets, eliminating overlapping operations, and economies of scale. A "rigorous restructuring" would occur before the multi-regional holding company was formed. "The biggest issue is to resolve our bad loan problems. We hope to balance out our problem loans as quickly as possible, but it could take between one and two years," said Mr Ito.

Hideo Ogasawara, Tokai Bank president, said the groups had been in discussions about a tie-up for several months.

Analysts said the deal could create a powerful retail force network.

"By tying these two banks together they will have strong retail franchises in the three largest commercial and industrial centres in Japan," said Brian Waterhouse, financial analyst at HSBC Securities in Tokyo.

The announcement had little impact on the banks' share prices: Tokai gained 0.94 per cent, or Y5, to Y536, and Asahi was up Y2 to Y387.

Japan Leasing, Page 4

French industrial confidence hit by emerging market turmoil

By Robert Graham in Paris

Fallout from the Asian and emerging markets crisis has finally begun to dent the optimism of French industrialists.

In the latest survey of opinion conducted by Insee, the official French statistics agency, manufacturers' expectations of an improvement in business conditions showed a significant drop in September.

On the key question of output trends, the balance of industrialists expecting an increase in the coming months, less those expecting output to decline, has fallen from plus 35 in July to plus 17 this month.

Economists have been predicting a slight slowdown in activity in the latter part of the year but this is the first confirmation such a process has begun. The decline in confidence was quicker and sharper than expected. The Bank of France's monthly survey of business opinion published two weeks ago was notably more optimistic. "The euphoria of industrial opinion reached a high point in July and this now puts things in a truer perspective, with continued strong domestic demand but clear effects from the state of the international economy," said Philippe Gudin de Vallerin of Goldman Sachs.

The change is particularly abrupt because no polls were conducted in August. It was over this period that contagion from Asia spread to Russia and emerging markets in Latin America.

Foreign order books have fallen back to levels of early spring. But Insee insisted this continued to be largely offset by stronger than expected domestic demand.

Until now, France has had the strongest-growing economy among the 11 countries set to join the European single currency, the euro. Official forecasts still indicate that France's gross domestic product will grow by 3 per cent this year. But in finalising next year's budget, which is adopting a mildly expansionary policy, the government this month revised the 1999 growth target down to 2.7 per cent from 2.8 per cent.

Private-sector economists have at the same time forecast a more prudent level of 2.5 per cent for 1999. They nevertheless continue to believe in the general buoyancy of France's recovery thanks to domestic and euro-zone demand.

Eric Chaney at Morgan Stanley Dean Witter noted yesterday: "Production has started to slow down in key cyclical sectors such as intermediate goods. Further slowdown is expected in all sectors." But he added: "Domestic and European demand is strong enough to alleviate the effects of the slump in emerging markets."

A number of industrialists have also reported concerns about the effects of slower growth in Italy and recession in the UK, the two most important EU markets for France after Germany.

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Philippine president Joseph Estrada, above, is letting Cathay Pacific fill the gap left by the closure of Philippine Airlines. PAL may revive, Page 22

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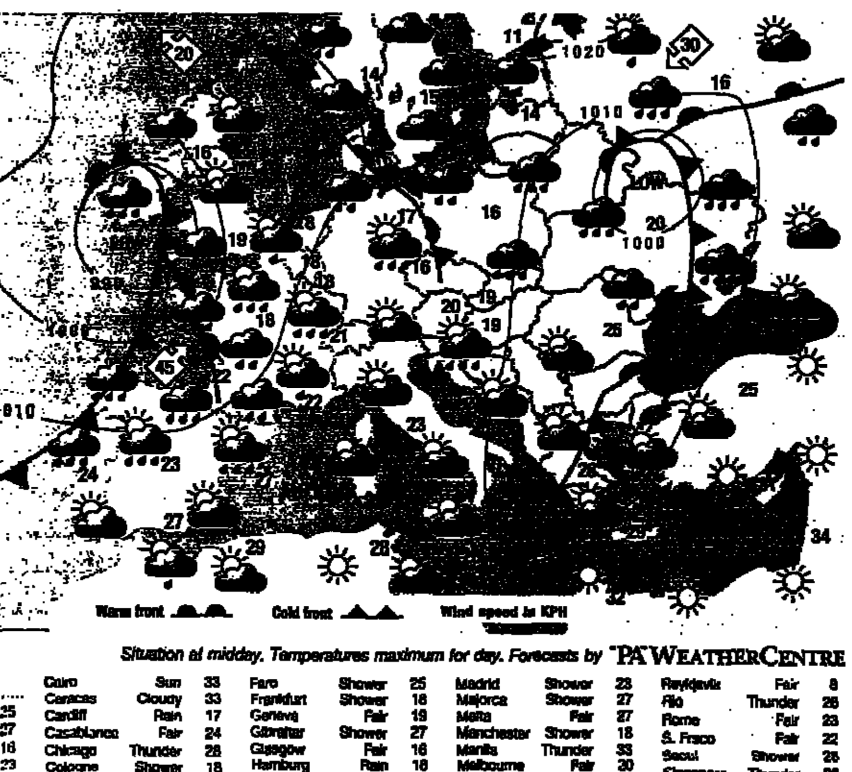
FT WEATHER GUIDE

Europe today

Portugal and most of Spain will be unsettled, with heavy rain moving in from the west, but south-eastern Spain should stay fine and hot. Most of the central Mediterranean and the coastal Balkans will be dry with some sunshine, but showers will move through southern Greece. Central and northern Europe will be unsettled with rain and showers. Some of the heaviest rain is likely to be across western France and western Russia. High pressure will keep northern Scandinavia bright but cold with early frost.

Five-day forecast

Pressure will stay high across northern Scandinavia, allowing cold air to filter south through western Russia. North-west Europe will be unsettled at first with more rain, but it will turn drier and cooler later in the week. Central Europe and much of the Mediterranean will be fairly warm, but unsettled, with thundery rain.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	42
Accra	Fair	30
Algiers	Fair	29
Amsterdam	Shower	18
Athens	Shower	29
Atlanta	Shower	26
B. Aires	Fair	18
B.ham	Shower	18
Bangkok	Shower	33
Barcelona	Shower	25
Beijing	Fair	27
Belfast	Shower	16
Belgrade	Shower	23
Berlin	Rain	17
Bermuda	Shower	29
Bogota	Cloudy	19
Bombay	Thunder	34
Brussels	Shower	18
Budapest	Shower	19
C.hagen	Cloudy	16
Cairo	Sun	33
Caracas	Cloudy	33
Cardiff	Rain	17
Casablanca	Fair	24
Chicago	Thunder	28
Cologne	Shower	18
Dakar	Fair	30
Dallas	Sun	33
Delhi	Sun	31
Dubai	Sun	41
Dublin	Rain	16
Dubrovnik	Thunder	22
Edinburgh	Cloudy	16
Faro	Shower	25
Frankfurt	Shower	18
Geneva	Fair	19
Gibraltar	Shower	27
Glasgow	Fair	16
Hamburg	Rain	16
Helsinki	Drizzle	11
Hong Kong	Fair	32
Honolulu	Fair	31
Istanbul	Shower	26
Jakarta	Cloudy	32
Jersey	Rain	17
Johannesburg	Fair	19
Karachi	Fair	35
Kuwait	Sun	42
L. Angeles	Sun	23
Las Palmas	Fair	28
Lima	Cloudy	19
Lisbon	Shower	25
London	Shower	19
Lux.bourg	Shower	16
Lyon	Shower	20
Madeira	Fair	26
Madrid	Shower	23
Majorca	Shower	27
Malta	Fair	27
Manchester	Shower	18
Manila	Thunder	33
Melbourne	Fair	20
Mexico City	Cloudy	26
Miami	Fair	32
Milan	Shower	22
Montreal	Shower	20
Moscow	Rain	15
Munich	Fair	18
Nairobi	Cloudy	25
Naples	Shower	25
Nassau	Thunder	32
New York	Sun	23
Nice	Shower	22
Nicosia	Sun	32
Oslo	Rain	14
Paris	Shower	18
Perth	Fair	22
Prague	Shower	18
Rangoon	Fair	33
Reykjavik	Fair	8
Rio	Thunder	28
Rome	Fair	23
S. Frsco	Fair	22
Seoul	Shower	28
Singapore	Thunder	32
Stockholm	Cloudy	15
Strasbourg	Shower	19
Sydney	Fair	25
Tangier	Shower	25
Tel Aviv	Sun	33
Tokyo	Fair	24
Toronto	Shower	23
Vancouver	Fair	20
Venice	Fair	21
Vienna	Shower	20
Warsaw	Rain	16
Washington	Fair	25
Wellington	Cloudy	15
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Zurich	Fair	17

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

UBS chiefs under fire over LTCM
Union Bank of Switzerland's investment and option deal with Long-Term Capital Management was tax-driven for both sides and was approved at the highest levels of the Swiss bank. Switzerland's Federal Banking Commission is investigating what led UBS to write off SFr950m ($690m) on its exposure to the US hedge fund. Page 24

GE Capital's Thai buying binge
In the executive offices of the new headquarters of GE Capital in Bangkok, there is no place for visitors to lounge. Not that one would want to. Sit still too long in Thailand these days and the giant US financial services arm of General Electric might gobble you up. Since the devaluation of the Thai baht last year and the subsequent problems of Thailand's economy, GE Capital has gone on a buying binge. Page 22

Caltex may lose Indonesian oilfields
Caltex, the joint venture between Chevron and Texaco, is Indonesia's largest oil producer. The government decides this week whether to hand 10 per cent of its capacity over to Pertamina, the state oil and gas company. Pertamina has been lobbying hard for the Coastal Plains Pakanbaru field. Caltex's 25-year lease on the field runs out in 2001 and oil executives see this as a test of the new government's attitude towards foreign investors. Page 34

Brussels sticks to CAP proposals
The European Commission is still determined to cut support prices for agricultural products. There had been speculation that world financial problems and weak agricultural markets might prompt a revision of the proposals, now being considered by European Union governments. But the Commission said reform plans would continue. Page 34

Savage setback for Swiss market
The Swiss stock market, one of the world's top performers in 1997, is licking its wounds. At its peak in late July, the Swiss Market Index was up more than a third since the start of the year. Since then, it has fallen more than a quarter. Bank Julius Baer notes the correction was not unexpected as Switzerland had been enjoying its second best bull run since 1925. Page 44

Seat hopes to make its marque
Seat's new generation Toledo saloon, to be unveiled at the Paris motor show today, will determine whether the Spanish subsidiary of Germany's Volkswagen group can accelerate its painful return to profitability. If it is a success it will mark the transformation of Seat from basket case to bright spark of Spain's motor industry. Page 23

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Paris set to sell France Telecom stake

$7.8bn sale of 12 per cent share tranche is expected within weeks despite global glut of telecoms issues

By Vincent Boland

The French government is poised for the imminent sale of another stake in France Telecom a year after its landmark privatisation, despite a glut of telecoms share issues in the market.

A 12 per cent stake – which would be worth FFr44bn ($7.8bn) at yesterday's closing price – is expected to be sold, including a 2 per cent stake to be bought by Deutsche Telekom as part of a mutual share swap to reinforce the operators' strategic alliance. The move is expected within weeks and the French treasury is understood to have asked a syndicate of banks to begin sounding out investor sentiment on the level of support that would be forthcoming for the sale of another tranche of France Telecom shares on the stock market.

If the initial reaction is positive, investor roadshows are expected to get under way soon for a two-week period.

The French public, which flocked to support the privatisation last year, is to be targeted again, with the rest of the issue being sold both to domestic and international institutions.

Two big telecoms share issues are currently under way – the privatisation of Swisscom, which could raise SFr9bn ($6.4bn) and the $15bn initial public offering of DoCoMo of Japan.

However, the France Telecom issue is likely to come after they have been completed, avoiding direct competition for investors.

Bankers said yesterday the new tranche of France Telecom shares would consist of a 5 per cent stake to be sold by the government and a 5 per cent stake in the form of new capital.

Some or all of the new capital would be raised through a bond issue convertible into the company's shares.

Together with the sale of the 2 per cent stake to Deutsche Telekom, the entire transaction would reduce the state's stake to about 63 per cent.

Most of the banks that took part in the privatisation of France Telecom last autumn are also in the syndicate to handle the second sale. The syndicate is again led by Paribas and Banque Nationale de Paris.

A smaller group is being put together to handle the convertible bond issue.

France Telecom shares were sold a year ago for FFr187 each to international institutions (individuals got a FFr5 discount).

Since then the price has nearly doubled, although the shares were trading at FFr490 before the current sharp correction in equity markets.

The shares closed yesterday at FFr363, down FFr7. Bankers suggested officials were hoping to secure a price of FFr350 a share for its 5 per cent stake.

However, bankers cautioned that big share sales in current market conditions were difficult and the government would have to pitch the price carefully.

Despite the flood of telecoms issues, bankers say demand for the sector is holding up well because it is relatively shielded from the global stock market volatility.

Lex, Page 20
DoCoMo issue, Page 25

Ericsson to simplify business structure

By Tim Burt in Stockholm

Ericsson, the Swedish telecommunications group, is to abandon its business area structure in favour of a new customer and regional organisation to make it more responsive to changes in the market.

The company, Sweden's largest exporter and one of the world's leading mobile telephone manufacturers, is also thought to be reconsidering plans to move its headquarters to London.

The overhaul, due to be announced next month, will be dominated by the announcement of a new matrix organisation focused on three customer segments: network operators, private consumers and commercial enterprises.

Sven-Christer Nilsson, who succeeded Lars Ramqvist as chief executive this year, has decided that the existing structure – comprising mobile systems, Infocom systems and mobile phones and terminals – no longer suits the demands of international customers.

Last year Mr Ramqvist caused ill-concealed irritation in the ruling Social Democratic party by suggesting that Swedish wage costs and income tax levels hampered the recruitment of overseas executives and might force Ericsson to relocate some headquarters functions.

Although last month the company agreed to acquire a prime office site in London for more than SKr1bn ($127m), Mr Nilsson is understood to have reviewed the plan following signs of unease among some of Ericsson's largest shareholders – notably Investor, the main investment vehicle for Sweden's Wallenberg business empire, which controls 22 per cent of Ericsson's voting rights. Percy Barnevik, Investor chairman, has made clear a move would be justified only if it promised savings of more than 20 per cent on headquarter costs.

In the past three months Ericsson's B shares, the most commonly traded, have fallen by more than 30 per cent, mainly in reaction to pricing pressures and fears of devaluation in China and Brazil. Yesterday, they closed up SKr5 at SKr158.

Lex, Page 20

US toy maker Hasbro yesterday said it had agreed to buy Galoob Toys – maker of Micro Machines toy cars and miniature dolls based on military themes, the Star Wars characters, the Spice Girls pop group and other figures – for $220m. But it warned of falling profits. Report, Page 23

Cargill sells N American seed operation to AgrEvo

$650m purchase is latest in wave of agricultural biotechnology deals

By Nikki Tait in Chicago

AgrEvo, the German agrochemical company jointly owned by Hoechst and Schering, is paying $650m for the North American seed operations of Cargill, the large privately-owned agribusiness company.

The deal is the latest in a multi-billion dollar wave of moves by big chemical companies to secure positions in the fast-growing field of agricultural biotechnology.

It gives AgrEvo its first US-based seed operation, although the company has already begun selling varieties of cotton seed under its own name in the US over the past year.

AgrEvo also has existing partnership arrangements with some of the biggest suppliers of genetically-altered seed in the US – including Pioneer Hi-Bred and Novartis of Switzerland – and claims its technology is used in much of the insect-tolerant corn sold in North America.

AgrEvo said yesterday that it did not expect the Cargill deal to alter those arrangements in the foreseeable future. Cargill's North American seed operations were known to be on the market.

Minneapolis-based Cargill sold off its international seed business to Monsanto, another big US player in the agricultural biotechnology field, for $1.4bn last June, and a disposal of the North American units was expected to follow.

Monsanto's purchase was widely expected to put pressure on rivals like AgrEvo and DuPont to make similar deals.

AgrEvo had already been touted as a possible contender for the DeKalb Genetics seed operations earlier this year.

They were also eventually bought by Monsanto, although the $2.5bn deal still needs final regulatory approval.

Yesterday AgrEvo admitted it had been anxious to increase its US presence, notably in the core Midwest corn and soybean areas.

Mr Gerhard Prante, AgrEvo's chairman, said that the Cargill purchase "underlines our commitment to building further our business in North America, the world's largest corn seed market.

"Secured access to elite germplasm means we can fuel the market expansion of our Liberty Link, StarLink, SeedLink and other technologies".

Liberty Link is a brand name for corn and canola seed which is genetically-altered, using AgrEvo technology, to tolerate a particular fertiliser, while StarLink is a product designed to protect against insect damage.

The Cargill business has about a 4 per cent share of the US corn seed market, and is also a leading supplier of sunflower seed. Its sales in the year to end-May were $106m.

AgrEvo will have use of the Cargill name for three years, and the Cargill farm service centres will continue to market Cargill-branded seeds.

The acquisition includes research and production facilities in 14 states and one Canadian province.

AMP plans share buyback to fight AlliedSignal bid

By Nikki Tait in Chicago

AMP, the big US manufacturer of electric and electronic conductors fighting a $9.8bn hostile bid from AlliedSignal, yesterday moved to bolster its takeover defences with plans to buy back up to 30m shares, or about 13 per cent of its outstanding equity, at $55 each.

This is a significant premium to the $44½ cash price offered by AlliedSignal. It will cost AMP around $1.65bn.

Robert Ripp, AMP's recently appointed chairman, said the move met AMP's promise to "increase shareholder value in the near term".

He also stressed that the company was confident of its recent earnings forecasts, of at least $2.30 a share in 1999 and more than $3 a share by 2000. He again derided the AlliedSignal terms as "opportunistic" and "low ball".

But AMP's move did little to lift its share price, or excite Wall Street traders. AMP's shares, by midday, had gained only $$\frac{7}{16}$$, to $39¾ – still well shy of both the AlliedSignal terms and the buyback price.

There was no immediate comment from AlliedSignal on its target's move. However, the share buyback – which is scheduled to begin next week – will add to AMP's debts, potentially making the company a less attractive property.

At present, AMP carries around $611m of debt on its balance sheet, and its gearing ratio is put at around 20 per cent.

To fund the buyback itself, AMP will take on additional debt of $1.65bn, but the company also said it had commitments for a total financing package of $3.25bn, supplied by affiliates of Credit Suisse First Boston and Donaldson, Lufkin & Jenrette, two investment banking firms.

It said this was the maximum debt it could arrange without losing an investment-grade rating. Although some of the funds are not earmarked for a specific purpose at this time, AMP said they could be used for other initiatives to boost "shareholder value" in the short term.

In addition to the buyback plan, AMP said it was forming a new "flexitrust", into which it will issue 25m shares. These will then be progressively released over a 10-year period to fund the company's commitment to various employee compensation and benefit plans. According to AMP, this should increase the company's cash-flow by around $100m annually.

The stock in the flexitrust will have voting rights. However, as far as the AlliedSignal offer is concerned it will simply be voted on the same proportionate basis as all the other AMP stock.

The AMP move comes at a time when the two companies are locked in a legal battle, with AlliedSignal attempting to combat some of the anti-takeover provisions provided to its target under Pennsylvania state law.

Cooper drops TLG offer clearing way for UK group

By Susanna Voyle

Wassall, the UK industrial conglomerate, yesterday appeared to have won a battle for TLG after the US company that first bid for the lighting group said it was walking away from the deal.

Cooper Industries, TLG's Houston-based rival, said it was letting its offer lapse, leaving the way clear for Wassall's 175p-a-share cash bid, which valued Hertfordshire-based TLG at £351m ($590m). Analysts said they could not rule out a third bid for TLG – No. 2 in the European lighting market after Philips – but it looked increasingly unlikely.

John Riley, Cooper chairman and chief executive, said raising its agreed 160p-a-share offer, which valued TLG at £321m, would not meet its criteria for increasing shareholder value.

Cooper said the decision did not rule out other European acquisitions. The group recently sold its automotive business for $1.9bn and plans to use the cash to pay off debt, buy back shares and make "complementary acquisitions".

Shares in TLG, which yesterday said it was recommending the Wassall bid to shareholders, fell 11¼p to 171¼p. The former Thorn Lighting Group, bought from Thorn EMI by its management in 1994, is seen as significant in an industry facing consolidation because of overcapacity. At the time of its bid, Cooper said it wanted to buy TLG to help it build a global lighting business.

Christopher Miller, Wassall's chief executive, said that, if the bid was formally accepted, a six-month review would be started to work out a joint plan for improving the business. Wassall's management was well placed to turn the business round and he insisted claims the group was overpaying were misplaced.

Wassall, which has manufacturing interests ranging from do-it-yourself and building products to bottle closures and travel goods, owns 25.5 per cent of TLG shares, a strategic stake built over 18 months. Mr Miller said the shares it held in effect brought the bid price down to 167p a share.

In April the group adopted a "new approach" to business that turned it into a hybrid institution – half industrial company, half investment fund. Under the approach, it looks for equity partners to help fund acquisitions while retaining managerial control.

Mr Miller said Wassall had spoken to a series of possible partners – both in the UK and in the US - on a general basis. While they had received a lot of interest, they had not spoken to anyone directly about the TLG deal. He said: "Ideally we would like to bring people in on this deal, but we have got the resources to fund it all by ourselves."

Wassall shares fell 10p to 227½p.

AIRLINES UNIONS REVERSE OPPOSITION TO LABOUR DEAL

PAL likely to resume operations

By Tony Tassell in Manila

Philippine Airlines is likely to return to the skies after a breakthrough on a labour deal to revive Asia's oldest airline.

The Philippine government said yesterday that the debt-burdened airline, which was closed down last week after nearly six decades of operations, may resume flights as early as October 7 after PAL unions reversed earlier opposition to the labour deal.

Under yesterday's agreement between management and the airline's largest union, each employee will be granted 60,000 shares in the company in return for suspending collective wage bargaining for 10 years.

The deal is still subject to approval from union members and the Philippine Securities and Exchange Commission but government officials were confident this would be a "formality".

"This is almost a done deal," said Joseph Estrada, the Philippine president, who has taken a high-profile role in attempts to revive the flag-carrier. The Philippines relies heavily on air transport for cargo and passenger movement between its 7,000 or more islands.

The airline still has some way to go to recover from steep losses due to its high debt, falling demand for air travel in Asia and the slide in the peso over the past 12 months. PAL remains under the management of a receivership committee.

Jaime Bautista, chief finance officer of PAL, said a rehabilitation plan for the airline still had to be finalised and agreed with creditors by the deadline of October, 30 set by the SEC. He was confident, however, that this would proceed after the labour deal.

President Estrada said that the labour deal would also clear the way for new investors to take a stake in the airline.

PAL officials have previously said that several airlines including Cathay Pacific, Northwest Airlines, EVA Air and Lufthansa had expressed interest in the carrier. President Estrada added, however, that foreign holdings of PAL's equity was limited to 40 per cent.

Earlier yesterday, Cathay Pacific became the first airline to operate domestic routes in the Philippines under a charter agreement with the state-owned Philippine National Bank. These flights are likely to continue until PAL is ready to resume operations next week.

Mr Bautista said the assets and liabilities of PAL were equal to about $2bn.

Joseph Estrada (centre) agrees deal allowing Cathay Pacific to fly Philippines domestic routes Reuters

GE Capital acquisitions build on Thai operational platform

The US group denies vulture claims and says its buying binge is aimed at creating a long-term business, writes **Ted Bardacke**

In the executive offices of the new headquarters of GE Capital in Bangkok, there is no place for visitors to lounge. Not that one would want to. Sit still too long in Thailand these days and GE Capital, the giant US financial services arm of General Electric, might come along and gobble you up.

Since the devaluation of the Thai baht last year and the subsequent tanking of Thailand's economy, GE Capital has gone on a buying binge. It has bought controlling stakes in Asia Finance, a top finance company, and the private-label credit card business of Central Group, the country's largest retailer.

It now arranges all retail car financing for Nissan in Thailand and in June spent some $530m at auction to buy $1.1bn of car hire-purchase loans from Thailand's 56 liquidated finance companies. Yesterday, the US group's Australian subsidiary agreed to buy Nissan's car financing unit in Australia.

Added to the more than 100,000 hire purchase loans the company already had, GE Capital now has title to one in every nine cars in Thailand. Assuming it doesn't purchase anything else this year in 1998 it will have doubled its served asset base, which market speculation values at nearly $1.5bn.

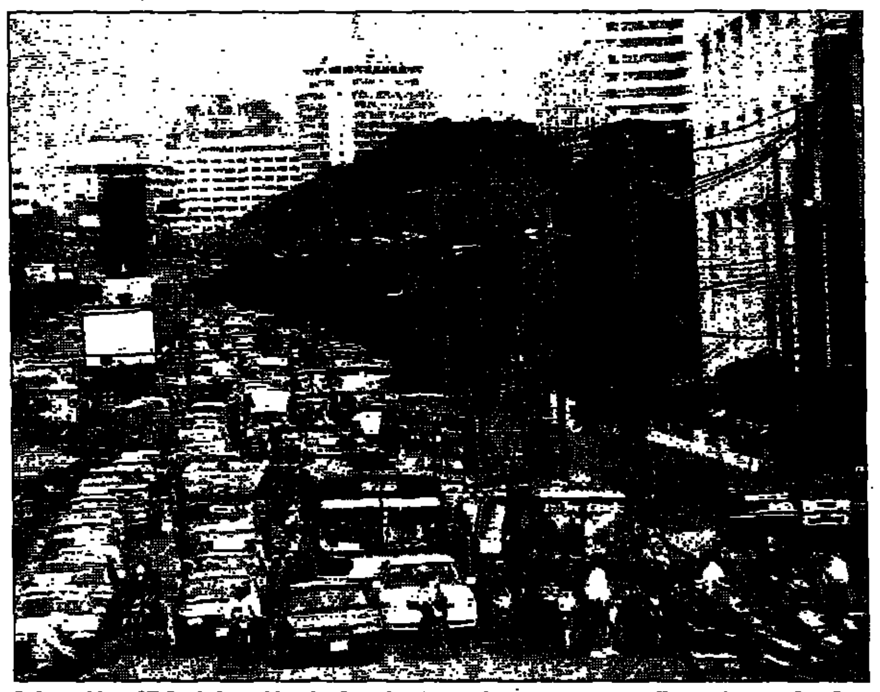
However, the company rejects the vulture label. "Nothing we've bought we've sold," says Daniel Mudd, president of GE Capital Asia Pacific, explaining that the acquisitions are aimed at building a long-term business rather than simply spinning things off when the economy rebounds.

"There are two ways to grow, organic growth and asset acquisition. Until this year, there were not many sales opportunities and valuations for our taste were extremely high. So we grew organically. Now we are acquiring," he says.

Wrapped up in this idea is a message for those looking with starry eyes at Thailand's massive fire sale, a sale that is likely to be duplicated around the region as the crisis bites. There are no easy pickings.

To acquire assets at a profitable price, especially at auction, GE Capital spent five years in Thailand putting in place an "operational platform", or the licences and companies it needs to own, value and service those assets.

"You would never have been able to do what our team did in the auto auctions if we had not been in the market, operating a business, with people that we knew and systems that work," says Mr Mudd. "You would have been crazy to participate without an operating platform first."



Pole position: GE Capital provides the financing for one in every nine cars in Thailand · Glyn Genin

This may partly explain why GE Capital ended up valuing the car loans higher – by 2-5 per cent says the company, much more than that say Thai finance officials – than its nearest competitor.

"Having been here we can put a close and comfortable value on a loan. For people who jump into the market now when they think they can make a quick buck they aren't bringing any value. They've got to bid it not as an operation but as a fire sale," says Mark Norbom, president of GE Capital Thailand.

"Given that we have the operating platform here, since we're going to do the servicing ourselves, we don't have to pay someone to do it, so that means we can afford to pay more with our same return parameters," he adds.

It sees its 250,000 new customers as a new "information goldmine" because the company also has other consumer financing businesses.

Its Asian strategy of operational platform first, then acquisition and growth is similar to that employed in Europe earlier this decade when GE Capital went from nowhere to contributing about one-quarter of the company's net earnings.

With a region-wide target of growing assets and earnings at double that of the rest of the company – which is already growing at more than 20 per cent annually – it would not be surprising if GE Capital, slowly acquiring licences and businesses throughout the region, made Thai-like moves in other countries just beginning to pick their way through crisis.

"Our strategy is very opportunistic," says Mr Mudd.

"We don't have specific pools of capital set aside for specific countries and specific reasons. Thailand went into crisis first. Thailand had the IMF in early. Thailand got its auction process together early so we've participated more. Other countries are also moving through these processes and we would expect to participate," he says.

With GE Capital taking advantage of the downturn to grow quickly, there is a sense that the company views a recession as a good thing. But Mr Mudd says it is just about different opportunities and that the degree of difficulty between an acquisition and internal growth "is about the same".

"One is just concentrated while the other happens over time," he says.

"I want the economy here to turn the corner. It's in everybody's best interest. Yes, we do better [in a downturn] but in a turnround the market does better, our employees feel good about it and our partners are happy," adds Mr Norbom.

Credito Italiano moves towards Unicredito merger

By Paul Betts in Milan

Credito Italiano will go ahead with the planned spin-off next month of its commercial banking activities as the first step of its merger with three large north Italian regional banks to form the new Unicredito banking group.

Alessandro Profumo, Credito Italiano chief executive, said in an interview the current financial market turmoil would not stop the constitution of Unicredito. This will integrate Credito Italiano with Cassa di Risparmio di Verona, Cassa di Risparmio di Torino and Cassamarca under the umbrella of a holding company with total assets of L300,000bn ($181.6bn).

Through an exchange of shares, Credito Italiano will control 59 per cent of Unicredito, with the three regional banking foundations and minority shareholders of the Verona bank accounting for the remaining 41 per cent.

The three foundations were due to make in November an initial public offer of 18 per cent of their holding, but have decided to postpone the L8,000bn-L9,000bn issue because of the high volatility and sharp decline in the value of banking shares.

Mr Profumo insisted this decision would have "no impact on the industrial process of integrating the various banking operations".

On a pro-forma basis, the new Unicredito group would have shown a net profit of L1,090bn in the first half of this year, with Credito Italiano contributing L735bn.

Apart from cutting 2,000 jobs over the next three years, cost reductions would be achieved through the creation of a single information technology system, a common back office and other savings.

After disposing of Credito Italiano's non-strategic assets, including stakes in Banca di Roma, Finmeccanica, Banca Nazionale dell'Agricoltura, Impregilo and Mediocrediot Centrale, the bank has maintained two strategic stakes, in Mediobanca and Telecom Italia.

The merger with the three northern regional banks was widely seen as a move by Credito Italiano to assert its independence from the old network of alliance centred around Mediobanca, the secretive Milan investment bank now struggling to carve itself a new identity.

Mr Profumo conceded that Credito Italiano's relationship with Mediobanca was in "evolution". The bank, which owns a 8 per cent stake in Mediobanca, wants to be involved in current manoeuvres around Mediobanca and Banca Commerciale Italiana (BCI), its main Milan rival which also owns 8 per cent of Mediobanca.

While Credito Italiano has taken a lead in this process, BCI is now in a power struggle to wed it to Banca di Roma or another banking group, such as the newly constituted San Paolo-IMI.

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Aditya Birla to consolidate cement business

By Krishna Guha in Bombay

Aditya Birla yesterday announced the details of one of the biggest corporate restructuring deals in Indian history – the merger of the cement assets of Indian Rayon into sister company Grasim Industries.

The deal, which will create a new giant in India's cement sector, also marks a determined effort to tackle the recent poor performance of Aditya Birla group shares.

"This restructuring programme builds a platform to enhance shareholder value," said Kumar Mangalam Birla, chairman.

Indian Rayon shareholders will part with the 3m-tonne-a-year cement business in return for Grasim shares, on a 3-for-10 basis. Grasim will also take on Rs4.4bn ($103.5m) in Indian Rayon debt.

"Post restructuring, Grasim will focus on two businesses – viscose staple fibre and cement, while Indian Rayon will focus on three businesses – viscose filament yarn, insulators and carbon black," said Mr Birla, who chairs both companies.

He said the transfer of the cement division would put both companies in a strong position to exploit consolidation in their industries. Grasim will use the cash flow from viscose staple fibre to build its cement interests, while Indian Rayon would be able to gear up to make its own acquisitions.

The cement merger is projected to deliver Rs150m-Rs200m savings a year in the short term, rising to Rs300m-Rs400m in the long term.

"So far we have been undercutting ourselves in the market," said Mr Birla. "The business will now operate as one large marketing network."

He said Grasim would benefit from market clout, rationalisation of assets and logistical savings. It would also obtain a big presence in the south of India for the first time. "Grasim will think nationally and act locally," said Mr Birla.

The transfer of the cement business is the first important outcome of a strategic review of Aditya Birla's corporate empire, in which Mr Birla has been advised by Boston Consulting Group and DSP Merrill Lynch.

Mr Birla said the decision to consolidate the cement business was prompted by investors demands. "In the past two years because of the commodity cycles both these stocks have underperformed," he said.

In a further effort to win back confidence, Mr Birla will cancel Grasim's cross-shareholding in Indian Rayon and buy back shares in the market to restore his stake in Grasim to 22 per cent after the restructuring is complete.

Mr Birla said he had considered merging the textiles interests of Indian Rayon and Grasim but decided against it. "Viscose staple fibre and viscose filament yarn are very different businesses – different products, different competitors, different landscape, different raw materials. There was no strategic logic."

However, he promised further action to increase focus at Grasim and Indian Rayon – which will still contain a bundle of other business interests such as sponge iron and magnesia. This could include selling underperforming businesses.

Analysts have welcomed the restructuring as an example to India's business establishment. "It is a positive step," said Uday Kotak, vice-chairman of Kotak Mahindra investment bank. "It shows the direction."

However, much remains to be done before Grasim and Indian Rayon can claim to be focused companies. Moreover, core-sector companies such as these remain exposed to the downturn in the Indian economy and low global commodity prices.

OIL US GROUP PRESSES AHEAD WITH PLANS TO PULL OUT OF SECTOR

DuPont sees Conoco spin-off within year

By Christopher Parkes in Los Angeles

DuPont is to press ahead with plans to pull out of the oil business and expects to complete the spin-off of its Conoco subsidiary within 12 months, the company said yesterday.

The announcement, which appeared to rule out a sale to a rival energy group, said the initial public offering of up to 25 per cent of Conoco stock would be made before the end of the year.

DuPont shareholders would then be offered the remaining 75 per cent in a tax-free exchange for their shares in the parent company.

Conoco estimated the IPO price in a range between $20 and $24 a share, which suggested gross revenues from the sale of about $3.6bn, and a total value for the group only just below analysts' earlier estimates of $25bn.

The company, which is believed to have held merger talks with other oil groups, said the IPO and share-swap strategy had been chosen following an evaluation of "all exit options".

The plan, which would in effect enable DuPont to acquire 10 to 20 per cent of its outstanding shares, offered the most value to shareholders, it said.

DuPont first announced plans to quit the oil business in May, starting with an IPO later this year, but since then tumbling oil prices and market uncertainty roused speculation that it might prefer a more straightforward, quicker exit.

In anticipation of the disposal, the group, which aims to increase its presence in higher-value life-science industries to complement its special chemicals and fibres, has lately described itself as a research and technology company "committed to better things for better living".

Earlier this month DuPont announced plans to withdraw from the coal industry, with the sale of most of its US mining interests to Rheinbraun, a subsidiary of Germany's RWE, and its present partner in the Consol business.

Conoco, a conventional oil and gas concern, is about eighth in world rankings by oil production and refining output. It operates in 40 countries and has almost 5,000 filling stations in the US alone.

Revenues last year represented more than half DuPont group sales of $45bn.

Hasbro buys Galoob Toys

By Richard Tomkins in New York

Hasbro, the second biggest US toy maker, yesterday said it had agreed to buy Galoob Toys, a smaller US manufacturer, for $220m in cash but warned it would suffer a fall in profits in the third quarter.

It blamed the decline on a fall in orders from Toys R Us, the US toy retailer, saying sales to the company were expected to be down by as much as $200m this year.

Earlier this month Toys R Us, which has been struggling to counter weak profits and a declining market share, announced a big restructuring, including the closure of 50 European outlets and nine in the US.

It also said it intended to complete a previously announced $500m inventory reduction this year, instead of over three years as originally intended.

The store closures and inventory reduction have hit toy manufacturers hard.

Last week Mattel, the biggest US toy maker, warned that profits would be below expectations in the third and fourth quarters.

Hasbro said it now expected earnings per share to be about 55 cents in the third quarter, down from 57 cents per share a year earlier.

For the full year, earnings per share were expected to be about the same as last year's, excluding one-time charges in both periods.

Galoob Toys is a quoted US company that makes Micro Machines toy cars and an array of miniature dolls based on military themes, the Star Wars characters, the Spice Girls pop group and other figures.

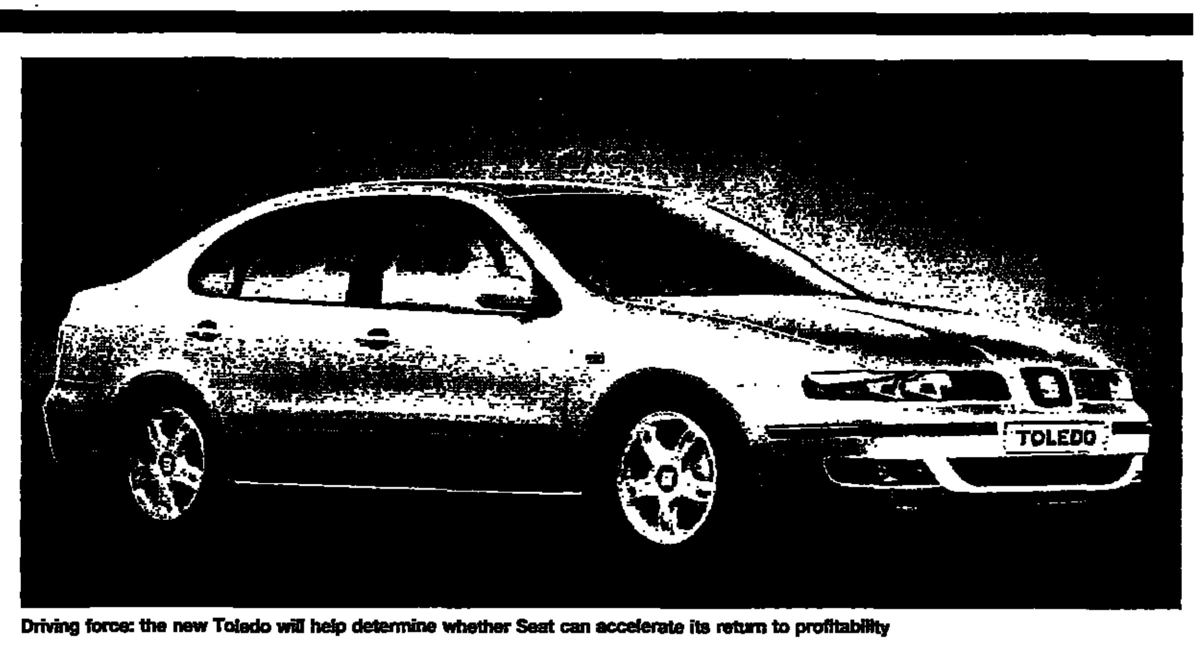
Recently it has suffered from a shortage of "hit" toys.

Last year, revenues tumbled from $110m to $8m, and it made net losses of $2.9m, against profits of $12.9m the year before.

Hasbro, which is paying $12 a share for the company, said it saw potential in merging their respective lines of toy cars and Star Wars figures, and that it was excited about acquiring Galoob's Spice Girls line.

Seat completes transformation with new model

The Toledo marks a turning point for the Spanish carmaker, writes **Haig Simonian**



Driving force: the new Toledo will help determine whether Seat can accelerate its return to profitability

For many Spaniards, Toledo is a watchword for art and architecture not far from Madrid. But for car lovers, it signifies a model which represents Seat's transformation from basket case to bright spark of the country's motor industry.

Seat's new generation Toledo saloon, to be unveiled at the Paris motor today, will determine whether the Spanish subsidiary of Germany's Volkswagen group can accelerate its painful return to profitability from peak losses of DM1.8bn ($1.08bn) in 1993.

Seat's return to profitability after being bought by VW began haltingly. In 1996, it notched up profits of DM60m. A year later, profits climbed to DM260m – a figure reached, unlike the previous year, without the crutch of exceptional gains from the sale of assets to the parent company.

This year, "should mark a further positive development in our results", says Pierre-Alain De Smedt, Seat chairman. Sales, which soared by 25 per cent to DM9bn last year, "should reach DM10bn". In the first eight months, turnover increased by 14 per cent, the same as at Skoda, VW's other once troubled but now healthy foreign subsidiary.

Seat expects to sell, "more than 430,000 vehicles this year", says Mr De Smedt. That compares with 402,000 last year and 344,000 in 1996. He also expects to boost output of kits for assembly - principally in Argentina and South Africa - from 60,000 to 70,000, and build about 130,000 cars for VW.

But while the Seat story has been one of steady recovery on the back of severe cost cutting and better capacity utilisation, it is only with the new Toledo that it will shift into an entirely new gear.

The new model, to go on sale in Europe before the end of the year, will be Seat's first car to be based on VW's much vaunted "platform strategy". That means basing as many group vehicles as possible on shared basic engineering structures – platforms – but giving each a distinct body styling, depending on which of the group's four main car brands they are destined for.

The new Toledo is the latest of a family of products based on the platform of the new generation VW Golf. Eventually, 12 models will be spun off the same structure, promising VW immense economies of scale in terms of procurement and development costs.

Like any replacement model, the Toledo will be quicker and cheaper to build than its predecessor. But above all for Seat, it represents the most important step so far in the company's strategy to upgrade its image from a cheap and cheerful Spanish carmaker once owned by Fiat to a serious rival to the Italian group's sporty and stylish Alfa Romeo brand.

To do that, the new Toledo will be bigger and much more strikingly styled than its predecessor. Although based on a lower medium-sized platform, long overhangs and a big boot will make the car appear a potential rival to larger vehicles, such as the Ford Mondeo and Renault Laguna, actually one class higher.

And, in a first step to giving Seat its new brand identity, the Toledo will feature bold front styling dominated by a massive Seat logo on its bonnet. Seat, the message says, no longer has to make excuses for its products.

Mr De Smedt is confident demand for the car will at least match the 100,000 sales a year notched up by its predecessor at best. But the story will not end there, he notes. Unlike the previous car, the new Toledo will be the first in a range based on the same platform.

Mr De Smedt declines to spell out the details. Motoring journalists expect the four-door Toledo to be followed by a hatchback, probably with a different name. A station wagon and even a coupe will probably come later.

All will reflect Seat's determination to go upmarket by having bigger, more powerful engines than previous models as part of VW's attempt to have Seat take on Alfa.

Building so many cars from one platform should do wonders for profits, as should turning Seat into a more desirable brand. Mr De Smedt will not reveal by how much he expects his margins to rise.

The new vehicle and its variants are the most important, but not the only, elements in Seat's product-led revival. At the big Martorell factory outside Barcelona, preparation is under way for a facelift for the Ibiza, the small hatchback.

Launched in 1993, the Ibiza is due to be replaced by an entirely new car around 2000. That vehicle, like the Toledo, will be based on a new car platform for all the VW's group's compact cars, starting with the new Skoda Felicia next year. As with the Toledo, it should offer big savings through economies of scale.

As an interim measure, the Ibiza will get a thorough facelift and significant structural and safety improvements. "The Ibiza will be strongly modernised to give it a second life," says Mr de Smedt. "After all, the competition isn't sleeping." Together with the new Toledo and its variants, such developments should help to persuade the sceptics that VW's investment in Seat may, after all, have been worth it.

Waste Management in $500m disposal

By Nikki Tait in Chicago

Waste Management, the biggest waste haulier in the US, is to sell off 16 landfills and 136 commercial collection routes for about $500m to Republic Services, the smaller waste business spun off by Wayne Huizenga's Republic Industries group earlier this year.

The disposal was required as part of the recent merger between Waste Management, the biggest but financially-troubled company in the industry, and USA Waste, the number three company.

Republic said it would expand its operations in four existing markets and get access to 16 new markets as a result of the deal.

It would add "fully integrated collection and disposal operations" in nine areas – including Houston, Denver, Louisville, Portland, Pittsburgh and Detroit.

The annual revenue from the operations being sold is put at about $275m, with $180m being generated by third parties.

Mr Huizenga was one of the founders of Waste Management, although he had left the company long before its recent accounting and operational problems surfaced, necessitating the takeover by USA Waste.

Under yesterday's deal, Republic will pay $500m in cash plus certain unspecified properties of its own.

NEWS DIGEST

HEALTHCARE SERVICES

HBO to acquire Access Health

HBO has agreed to buy Access Health, a provider of healthcare services, in a stock swap worth up to $1.07bn. The exchange ratio will be based on HBO's stock price over a given period before the deal closes. Access Health closed at $31.25 on Friday. It had revenues of $120.6m for the year to September-end 1997. The acquisition will be *accounted for as a pooling of interests and is expected to* close during fourth quarter of 1998.

HBO delivers patient care, clinical, financial and strategic management software solutions, as well as networking technologies, electronic commerce, outsourcing and other services to healthcare organisations. **Reuters, Atlanta.**

INSURANCE

Allstate in property sale

Allstate, the insurer, has sold a portfolio of investment property for $965m to Westbrook Partners. The deal included about 10m sq ft of property but not corporate properties such as Allstate's Northbrook headquarters, the company said. Allstate's property portfolio was assembled in the early 1990s, and has been developed, acquired and managed by Allstate for its own account. After completion, Allstate's portfolio would include about $1bn in property equity securities not being sold, it said.
Reuters, Northbrook, Illinois

AGRICULTURAL EQUIPMENT

Case to buy DMI unit

Case Corporation, the US farm and construction equipment company, is to buy the agricultural equipment business of DMI, an employee-owned company based in Illinois that specialises in the manufacture of soil management products. These include products used to assist in fertiliser applications and tillage-related products. The move comes at a time when many big farm equipment makers are broadening their product ranges, and looking to provide more complete farm equipment "systems" – thus allowing farmers to approach growing seasons with more precise tools. Terms were not announced.
Nikki Tait, Chicago

COMPUTERS

IBM, Sedgwick develop service

International Business Machines, the international computer group, and Sedgwick, the UK-based insurance broker, are jointly developing risk transfer services for companies engaging in electronic commerce over the internet. Sedgwick said that by combining insurance coverage with IBM consulting services it would help companies to control and reduce computer risks, as well as manage the *after-effects of security breaches. Initially, IBM will perform* an e-commerce "health check" on prospective customers. This assessment of a company's internet-based activity will define the scope of a company's risk and how it can be reduced through risk control measures and insurance coverage. Sedgwick said that by using IBM's expertise in internet security, it would be able to offer insurance against losses due to computer security breaches such as network hacking, viruses and electronic thefts.
Andrew Bolger, Insurance Correspondent

Charges reduce AOL earnings

By Louise Kehoe in San Francisco

America Online yesterday restated its fourth-quarter and year-end earnings to include acquisition charges. The final figures had been delayed by talks between the *online services company and* US securities regulators.

AOL yesterday disclosed a charge against earnings of $88.2m, related to two acquisitions and the settlement of a shareholder lawsuit.

The charges reduced net earnings for the fourth fiscal quarter, ended July 30, to $7.1m, or 3 cents a share. This compared with a loss of $11.8m, or 35 cents a share in the corresponding quarter.

AOL had reported its operating results in early August, but in an unusual move delayed disclosure of net figures pending the outcome of talks with the Securities & Exchange Commission. *The company said it* initiated the talks.

However, regulators have been scrutinising technology acquisitions in which companies immediately write off large sums for "in-process research and development". The practice enables companies *to avoid spreading* charges over years and reducing future earnings.

AOL's shares had risen almost 4 per cent, at $119⅛ in mid-session yesterday.

During fiscal 1998, AOL increased its subscribers by 3.9m to 12.5m. AOL said revenues from subscriptions increased 51 per cent to $2.2bn. Revenues from advertising and electronic commerce rose 160 per cent to $253.9m.

For the full year, AOL reported net income of $91.8m, or 35 cents a share, after charges. This compared with a net loss of $488.3m, or $2.61 a share in 1997.

PR disaster at Sprint Canada

By Scott Morrison in Toronto

Sprint Canada, the telecommunications service provider, has qualified a scheme offering unlimited domestic long-distance calling after it was unable to cope with a sharp increase in customer volume.

The public relations embarrassment recalls America Online's difficulties last year, when users clogged the online service provider's network after it offered unlimited service for *a flat fee.*

Like AOL at the time, Sprint Canada said it was working to expand its network capability. However, unlike the US online group, the Canadian company has imposed a cap on its unlimited calling plan.

Sprint Canada, wholly owned by Call-Net Enterprises, had offered unlimited long-distance service in Canada for C$20 (US$13.2) a month, but yesterday said that customers who exceeded 300 minutes a month would be charged for additional services.

Sprint Canada in July was the first of the nation's carriers to offer domestic long-distance service for a flat fee. Bell Canada and many of the country's other former monopolies, which have for several years been losing long-distance market share, were forced to respond with a similar unlimited calling plan.

But Sprint Canada yesterday said it was surprised by the sharp increase in traffic volume. Philip Bates, president and chief operating officer, *said about 5 per cent of* customers, numbering 1.2m at the end of 1997, were accounting for about 30 per cent of the network's traffic.

Shares of Call-Net Enterprises, 25 per cent owned by Sprint, the US carrier, have fallen by almost 50 per cent to about *C$13 since late July,* in part because investors became concerned about the company's ability to generate revenue with its unlimited calling plan. Mr Bates, however, denied that the company's revenues were suffering as a result of the plan.

Top brass at UBS in line of fire over LTCM debacle

Bank says it is confident the SFr950m charge will be the limit of its loss, writes **Clay Harris**

Union Bank of Switzerland's ill-fated investment and option deal with Long-Term Capital Management was a tax-driven transaction for both sides and was approved at the highest levels of the Swiss bank.

Switzerland's Federal Banking Commission is investigating what led UBS, now Europe's largest bank, to write off SFr950m ($690m) on its exposure to the US hedge fund.

According to bankers familiar with the deal, one of the main incentives was the desire by LTCM's US partners to defer income for up to seven years and convert it into less highly taxed capital gains. For the Swiss bank, the prospect of tax-free capital gains was also a significant attraction.

It has also emerged that:

- the complex "structured transaction" between UBS and LTCM was unusual under the Swiss bank's internal trading rules;
- although the deal involved an equity investment and equity derivative, it was handled by the bank's fixed-income division – and even more unusually, by its central treasury;
- the deal's leading advocate within UBS – the man who prepared a key internal sales pitch – was a former colleague at Salomon Brothers of John Meriwether, LTCM founder;
- top managers at the new UBS, dominated by executives from Swiss Bank Corporation, were told about the LTCM exposure before the merger, but chose not to act. In fact, by failing to hedge, they may have increased the bank's eventual loss;
- UBS executives, scrambling to prepare for a meeting tomorrow with Swiss regulators, were frantically searching offices at the weekend to try to discover who had approved the deals. By Saturday, they were still looking for documents relating to two of the three tranches of the transaction.

UBS said yesterday it was in the midst of an internal audit. It was confident the SFr950m charge would be the limit of its loss and estimated its residual interest in LTCM at $400m, including the $300m it put in last week as part of the rescue.

Although UBS's role is somewhat of a sideshow to the main LTCM spectacle, it is a very big story indeed for the Swiss bank which barely two months ago escaped with a tap on the knuckles for its failures of risk control and oversight which led to another SFr625m loss on derivatives last year.

In that case, Mathis Cabiallavetta, chief executive of the old UBS and chairman of the new one, and key associates were able to pin the blame on the former global equity derivatives (GED) team which they had sacked in November.

It may be harder for them to avoid responsibility for the LTCM debacle. Mr Cabiallavetta, dazzled by the apparent brilliance of Mr Meriwether and his team of Nobel economics laureates, championed the deal from start to finish.

Felix Fischer, chief financial officer at old UBS and chief risk officer at new UBS, insisted that part of the investment be booked through UBS's treasury account, normally used for funding and maintaining liquidity. And Werner Bonadurer, head of trading at old UBS and now co-chief operating officer at Warburg Dillon Read, personally approved at least the third tranche of the deal.

With hindsight, the deal was unusual in many ways. In 1996, UBS sold seven-year "call" options on LTCM shares, to a notional value of about $800m, to the hedge fund's own partners, in return for a premium of $175m. Taken on its own, this seven-year option enabled LTCM partners to shift risk on to UBS, as the bank potentially had no limit to its liability if the value of the fund soared.

The option had a strike price of 80 per cent of the forward value of LTCM shares, computed at dollar Libor plus 75 basis points (0.75 percentage point).

But to hedge its position and to share in the upside it expected, UBS became an equity investor in LTCM. According to bankers, only about $525m was required to cover UBS's initial exposure, but an extra $275m was put in as equity, in a deal involving one of LTCM's Cayman Island affiliates. (UBS yesterday confirmed the bank had made a $266m investment in the summer of 1997).

The structure rang alarm bells. It was sufficiently unusual to provoke opposition from two UBS executives well used to taking risk: Andy Rodman, former head of global proprietary trading, and Ramy Goldstein, dismissed as head of GED last year after a financial bloodbath caused by a misjudged arbitrage position in Japanese convertibles and the sudden closure of a UK corporation tax loophole.

It was risky, bankers said, because of its sheer size, the length of the option and the illiquidity and opaqueness of the underlying asset. Unlike a share or bond, whose value could be gauged in the market immediately, LTCM's net asset value was available – from the fund – only once a month. It was hard to believe, they said, that UBS would normally have allowed this.

The idea was brought to UBS by Ron Tannenbaum, who joined from Salomon in 1991, and wanted to create a structured products group which would transcend the frontiers of fixed income and equities. Mr Tannenbaum prepared an internal sales pitch which promoted the LTCM deal as a means of "global diversification into 'relative value' away from UBS's current macro-oriented European proprietary trading".

He said the "strategic relationship" would give UBS an "opportunity to participate in a highly levered (sic) 'relative value' strategy through a limited liability company without adversely affecting UBS's balance sheet." Mr Tannenbaum, who now works for Rabobank, sought permission to invest personally in the fund, but this was refused by superiors. He was not available for comment.

In spite of misgivings, the three-part deal – two tranches of $300m each, followed by a third of $200m – went ahead. It is not clear whether a UBS "risk council" set up at the end of 1996 approved or reviewed the LTCM exposure. Its members were Messrs Cabiallavetta, Fischer and Bonadurer and Pierre De Weck, now chief credit officer.

As recently as this weekend, UBS executives were trying to discover who had signed what, ahead of tomorrow's opening meeting with the Swiss regulator.

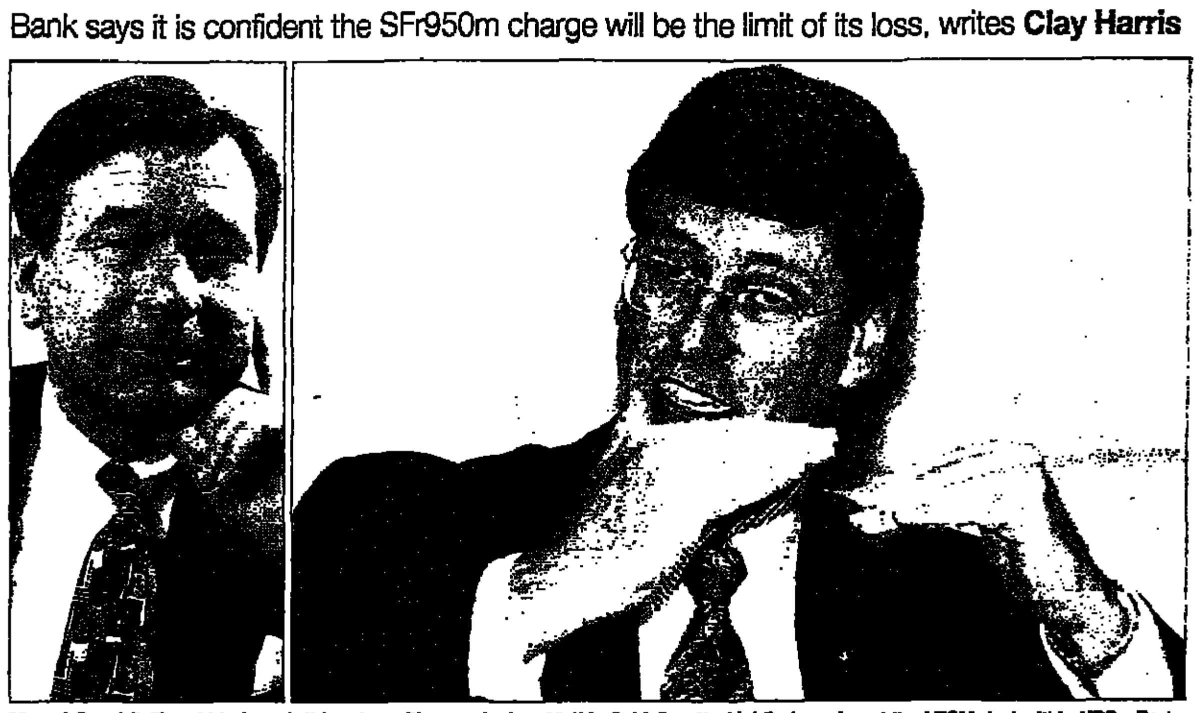
The initial search of UBS's Felsenhof head office in Zurich by Toni Kurmann of the internal audit team and Paul Chan, Mr Cabiallavetta's personal assistant, turned up only Mr Bonadurer's approval of the third tranche. This was signed after Hans-Peter Bauer, global head of fixed income, currency and derivatives, objected to the final instalment. Mr Bauer left UBS just before Christmas last year.

But nearly a year after the merger was announced, and four months after its belated consummation, the SBC-dominated top brass at the new UBS may find it hard to continue to plead ignorance about their partner's mildewed dowry.

Two former UBS executives, who supported and handled the deal, say several senior executives of the new UBS, from the SBC side, were told about the exposure before the merger. They chose not to introduce further hedging even though LTCM partners were keen to retrieve some of their equity.

There are also doubts about UBS's explanation last week that it had intended to sell on part of the LTCM investment in a "fund of funds". The agreement between LTCM and UBS included severe restrictions on transferability.

Marcel Ospel, UBS chief executive, is said to have left London last week with his "ears ringing" after breaking the bad news about LTCM to top executives, most of them colleagues from the old SBC.



Marcel Ospel (left): said to have left London with ears ringing. Mathis Cabiallavetta (right) championed the LTCM deal within UBS Reuters

BANK VOTE OF NO CONFIDENCE EXPECTED AFTER OPPOSITION TO BANCA DI ROMA DEAL

BCI set to remove chairman

By Paul Betts in Milan

Banca Commerciale Italiana's executive committee is expected today to unseat Luigi Fausti, chairman, with a vote of no-confidence in his continuing leadership of the Milan commercial bank.

The move is understood to have been engineered by Mediobanca, the Milan bank which has been angered by Mr Fausti's opposition to a merger between BCI and Banca di Roma.

But even Mr Fausti's allies on the executive committee are expected to vote against him on the grounds that the bank needs a new chairman to lead it during a period of rapid consolidation in the Italian banking sector.

The committee is likely to appoint a temporary chairman until a new board is constituted, reflecting the changed shareholding structure of BCI. The board would then name a new chairman.

Gianfranco Gutty, chief executive of Assicurazioni Generali, one of BCI's leading shareholders, or Francesco Cingano, chairman of Mediobanca, were being tipped last night as candidates for temporary chairman until a permanent successor is named.

Industry insiders said last night that both Mr Fausti's opponents and supporters had concluded it was time for him to go. But they emphasised this would not signal the go-ahead for BCI to resume merger talks with Banca di Roma.

Although Mediobanca and its allies have been pressing for a merger of the two banks, both 8 per cent shareholders of Mediobanca, other BCI shareholders have opposed the deal, arguing that the Milan bank should concentrate on expanding in northern Italy.

However, even Mr Fausti's supporters have criticised him for failing to complete a large merger or acquisition when his Italian banking rivals have clinched significant deals.

The arrival of Deutsche Bank – which last week announced it had bought a surprise 4.5 per cent stake in BCI – as well as other unnamed large shareholders is expected to tip the balance away from Mediobanca and its allies. There were reports last night that Credit Suisse may have bought a stake in BCI.

Paribas, with a 4 per cent stake, has also voiced its opposition to a BCI-Banca di Roma merger.

In an effort to outmanoeuvre Mediobanca and its allies, BCI sought this month to join the new group of core shareholders of Banca Nazionale del Lavoro, due to be privatised by the Treasury next month.

Mediobanca, which last night reported group net profits of L330bn ($200m) for its latest financial year, has thrown its full weight behind a last-ditch attempt to force through a deal between BCI and Banca di Roma. This would safeguard its influence on the network of financial and industrial alliances that Enrico Cuccia, its founder and honorary chairman, has put together during the past 40 years.

Lex, Page 20

Bouygues moves on telecoms sale

By David Owen in Paris

Bouygues, the French construction, utilities and telecommunications group under pressure from Vincent Bolloré, the French financier, is looking to float Bouygues Telecom, its mobile telecoms unit, by late next year or early 2000.

Philippe Montagner, group director, telecommunications, made the disclosure yesterday at a Paris analysts' meeting. It came as the group confirmed it intended to cut its stake in 9 Telecom, its 51 per cent-owned fixed telecoms subsidiary, to below 20 per cent.

The company has come under intense pressure from Mr Bolloré, who bought a 10 per cent interest in Bouygues last December, to reconsider its telecoms strategy. The Breton financier has urged Bouygues to sell its telecoms operations on the grounds it had insufficient capital to develop so many activities at once.

Bouygues argues the activity is creating "substantial value added" for Bouygues shareholders.

The group's "share of the accounting losses inherent in the launch of this type of activity" amounted to FFr353m in the first half of 1998, against FFr158m a year earlier.

A flotation in the late 1999-2000 period would almost certainly predate Bouygues Telecom's first annual profit. The group has indicated it now does not expect the unit's results to turn positive until 2001.

In other fields, Bouygues said it expected to announce the disposal of Grands Moulins de Paris, France's second-biggest flour maker, within weeks.

The group also expects shortly to receive up to four offers for a substantial minority holding, probably between 30 and 40 per cent, in its Saur-Cise public services business. Two of the prospective bidders are understood to be North American, with one French and one from the UK.

The group, which is anxious to retain control of the business, is understood initially to have offered a smaller stake but to have attracted little interest.

Bouygues last week reported a sharp downturn in first-half net attributable profit, although profit before tax and exceptional items rose more than 50 per cent to FFr1.02bn. The shares yesterday closed down 4.1 per cent at FFr1,017.

Custos sells its entire stake in Skanska

By Tim Burt in Stockholm

Custos, the Swedish investment company, yesterday sold its entire holding in Skanska, one of Europe's largest construction groups, for SKr1.99bn ($253m).

The expanding investment group, which held 25.1 per cent of Skanska's voting rights and 6.1 per cent of the capital, has agreed to sell part of the stake to Industrivärden, another Swedish institutional investor, and part to Inter-Ikea, the privately owned investment arm of the Ikea furniture group.

Skanska said the share transaction would have no impact on its strategy of focusing on international construction projects and real estate development.

"We will continue to unwind peripheral assets when the time is right," said Claes Björk, Skanska chief executive.

He also emphasised that the change in shareholder structure would not affect the disposal timetable for non-core assets, such as Skanska's 8 per cent stake in SKF, the bearings manufacturer.

Skanska's most commonly traded B shares yesterday fell SKr3 to SKr271, compared with the SKr285-a-share offer accepted by Custos.

Under the terms of the deal, Industrivärden has invested SKr1.19bn to acquire 15 per cent of the construction group's voting rights and 3.6 per cent of the capital from Custos. That will lift its existing share of the votes and share capital to 29.9 per cent and 7.4 per cent respectively.

Inter-Ikea has spent SKr800m for 10.1 per cent of the votes and 2.5 per cent of the capital.

Industrivärden is expected to be offered boardroom representation, while Inter-Ikea's investment should cement the existing relationship between Skanska and Ikea.

Inter-Ikea said the acquisition signalled its confidence in Skanska's strategy.

Per Ludvigsson, chief executive of Inter-Ikea, made clear that it did not signal any shift in the furniture group's investment strategy, which is heavily weighted towards bonds.

Custos, meanwhile, said it would use the SKr863m gain on the transaction to fund new investments.

It is the second significant disposal by Custos in recent weeks. Earlier this month, it prompted the merger of two Swedish real estate companies by selling a 44.6 per cent stake in Drott to rival Näckebro for SKr1.07bn.

Drott, which launched a SKr3.36bn counter-bid for Näckebro, yesterday said it had secured 66.4 per cent of Näckebro's shares.

- In a separate announcement yesterday, Skanska said it was suspending work on two Russian construction projects because of the country's economic crisis.

NEWS DIGEST

RETAILING

Rival bid clouds plan for KBB-Vendex merger

A planned merger between KBB and Vendex to create the Netherlands' biggest department stores group was thrown into question last night when a privately owned clothing chain proposed a counter-offer for KBB. WE International, operator of mid-market clothes stores and second largest shareholder in Saks Fifth Avenue of the US, indicated it was willing to bid up to Fl 1.82bn ($968m).

WE, which controls the Hij and Zij fashion outlets, said it would pay Fl 160-Fl 165 cash per share for KBB, which owns the prestige Bijenkorf chain and Hema, a mass-market clothing and household retailer. Its bid would have financial backing from Rabobank and from Gilde Investment Management.

Vendex launched its agreed offer, valued at Fl 145 a share, in February and has since been awaiting competition clearance. WE, controlled by the de Waal family, said it had held discussions with KBB management aimed at a friendly deal. Neither KBB nor Vendex reacted immediately to the intervention. **Gordon Cramb, Amsterdam**

POLYESTER

Rhodia to sell Tergal Fibres

Rhodia shares climbed steeply yesterday as the French speciality chemicals company, partly spun off by Rhône-Poulenc earlier this year, announced plans to sell another polyester business.

The group said it would sell Tergal Fibres, its sole remaining European polyester production plant, to Compagnie Européenne de Polyester. CEP is in turn owned by the financial institutions Financière Natexis, EPF Partners and ABN Amro, together with the factory's current management team. Tergal Fibres produces PET resin, used in manufacturing mineral water bottles and polyester fibres for the automotive and textile markets. It employs 210 people at Gauchy in France and expects 1998 sales of FFr500m ($89m).

Rhodia said the move was in keeping with its strategy of focusing on speciality chemicals. It has sold 14 businesses with combined sales of FFr2.2bn over the past year.

The shares climbed FFr9.70, or 14.5 per cent, to FFr76.70. **David Owen, Paris**

METALS

Hoogovens scraps forecast

Hoogovens, the Dutch metals producer, last night retracted its projection of some 39 per cent profits growth for the year, saying it was under pressure from sharply rising imports. The impact on sales and product prices of world economic upheavals meant it was instead predicting earnings at about the 1997 level of Fl 498m ($264m).

"The increasing effects of the Asian crisis, and the worsening of the Russian and South American economies, are having more serious consequences than foreseen," it said. This showed through in "disappointing sales in various market segments and in falling prices".

Early last month, in reporting interim profits nearly doubled to Fl 386m, Hoogovens said the second half should match the Fl 304m achieved in the same period of last year. Ahead of the news, Hoogovens shares closed 90 Dutch cents firmer in Amsterdam at Fl 59.20.
Gordon Cramb, Amsterdam

CHEMICALS

AECI takeover approved in part

Shares in AECI, the South African chemicals and explosives group, fell 47 per cent to R12.80 yesterday after the competition board gave only partial approval for a takeover by Sasol, the petrochemicals company.

Sasol had offered R30 for each share in AECI, which is 53 per cent owned by Anglo American Industrial Corporation. The competition board recommended that upstream operations such as the production of ammonia and phosphoric acid could be merged, subject to conditions, but it said fertilisers and explosives should be excluded.
Victor Mallet, Johannesburg

FORESTRY PRODUCTS

Enso buys into Advance Agro

Enso, the Finnish forestry products group, yesterday underlined its expansion ambitions in south-east Asia by agreeing to acquire 19.9 per cent of Advance Agro, the Thai pulp and paper company, for FM416m ($82m).

The Finnish company, which announced earlier this year it was merging with Stora of Sweden, said the deal would give it exclusive rights to market Advance Agro's products outside Thailand. In a separate move, Oji Paper of Japan said it was acquiring 5.5 per cent of Advance Agro for $23.5m in exchange for marketing rights.
Tim Burt, Stockholm

ENERGY

Tractebel meets foreign target

Tractebel, the Belgian energy group, said yesterday it had achieved its target of having more generating capacity abroad than in Belgium two years early, as it announced a 12.7 per cent increase in first-half net profits.

Profits rose from BFr9.84bn to BFr11.09bn ($322m) on turnover up 10.9 per cent from BFr181.9bn to BFr201.8bn. The group said its acquisition of a stake in Gerasul, the Brazilian power company, had taken its total generating capacity to 37,000MW, of which more than 22,000MW is outside Belgium – making it the world's third largest independent power producer. **Neil Buckley, Brussels**

هكذا من الأصل

NTT DoCoMo's initial public offering will be the world's biggest. Growth has been explosive, but the world's largest cellular operator now faces a slowdown. Moreover, the IPO is being launched in a *hostile environment of global market volatility*. Financial Times reporters assess the prospects for the DoCoMo IPO and the factors that will influence the company's valuation

Questions hang over record-breaking issue

By Paul Abrahams in Tokyo

The initial public offering by DoCoMo, Japan's biggest mobile telecommunications group, easily generates superlatives. It will be the largest issue ever, overtaking that of its massive parent, NTT, in 1986. It is expected to become one of Japan's top three companies by market capitalisation, with a value of $46.5bn-$60.6bn.

The company's name is derived from its slogan, DO COmmunications over the MObile network, or *doko mo*, which in Japanese means "anywhere".

It is the world's biggest cellular operator, generating 70 per cent of NTT's cash flow from less than 10 per cent of its employees. Its growth has been phenomenal: the subscriber base has exploded from just 1.3m customers in March 1994 to more than 20m last month.

DoCoMo dominates the world's second largest market, with a 57 per cent share of all subscribers. During the past three years, earnings before interest, tax, depreciation and amortisation (Ebitda) have grown at compound annual rate of more than 40 per cent – in spite of Japan's worst recession in 50 years.

But although DoCoMo's record is impressive, questions remain over whether it can maintain its momentum.

Japan's cellular market is reaching saturation. The capital investment required to support the company's existing network and its future third-generation digital system is huge – Y4,000bn over the next five years – and there are doubts about the return this expenditure will generate.

The company's low-cost personal handyphone service (PHS) – which has a smaller range than normal cellular phones – has never made a profit.

The company is, therefore, not necessarily the straightforward growth story being told by Nikko Securities and Goldman Sachs, the issue's global co-ordinators.

But the biggest question-mark is the future of DoCoMo's core cellular services, which account for 75 per cent of revenues.

DoCoMo and its competitors have been almost too successful – last year the number of Japanese mobile subscribers jumped 50 per cent to 31m. Nearly one-quarter of the population already owns a cell phone – only Sweden, Norway, Israel, Finland and Hong Kong have a higher penetration rate – and the growth of the Japanese market is sure to slow in the next few years.

Moreover, as the growth of the mobile market slows, DoCoMo is likely to lose market share. This is mainly because of technical factors: DoCoMo is in danger of running out of bandwidth capacity. Although it controls more than half the market, it has been allocated only 41 per cent of the cellular bandwidth. That means it has 3,000 customers for every base station, against 2,000 for most international mobile operators.

To offset this congestion the company is investing heavily in new base stations and improving transmission technology and data compression. Its cumulative capital investment in the past three years has been Y1,405bn, but this year alone it will invest Y840bn. Most analysts believe its spending will need to be kept at these levels for the foreseeable future.

Despite this, some observers estimate that if subscriber numbers expand another 50 per cent, the network could become so congested that customers will no longer able to make calls at peak times and would switch to other providers.

Also, revenues per customer will almost certainly fall. Monthly average revenues per customer have dropped from Y19,720 in 1995 to Y10,810 last year, and are expected to drop to Y9,430 this year. By one estimate, the compound average growth rate of DoCoMo's sales looks set to fall to 8 per cent *over the next seven years*.

Margins on the cellular business could also suffer because of greater marketing costs, aggressive discounting – basic rates have fallen 50 per cent in the past three years – and higher numbers of low-value marginal customers. By one estimate, the growth of DoCoMo's Ebitda will fall from 58 per cent last year to just 20 per cent next year, 6 per cent in 2001 and 2.5 per cent in 2003.

The company is increasing its stake in the PHS operations from 48 per cent to 63 per cent in December, and from next year will have to consolidate PHS's losses as well as debts of Y450bn. Net profits may not be seriously affected because of tax credits on the losses, but the balance sheet implications are significant and PHS may prove a significant drain on management resources.

To offset these problems DoCoMo, led by Keiji Tachikawa, its energetic new president, plans to invest heavily in its new technology, known as wideband code division multiple access, or W-CDMA. The aim of this investment – a staggering Y2,000bn – is to create a new market in multimedia mobile telephony which allows data as well as voices to be transmitted over the airwaves. This move is described by Mr Tachikawa as "moving from volume to value".

DoCoMo can probably afford the investment as its pre-IPO debts of Y1,365bn will almost certainly be eliminated by the proceeds of the issue. But significant problems remain. First, the W-CDMA technology may not be ready for its planned launch in 2000. Furthermore, the company's ambitions are highly dependent on the system being adopted as a global standard – which is far from certain.

Finally, there is no guarantee that this huge and expensive gamble will generate an adequate return. Some believe there may be limited demand for wireless data traffic, and in any case bandwidth restrictions could limit the number of customers, making the service less profitable than its existing cellular network.

Most analysts are using price/Ebitda multiples to compare DoCoMo with international groups such as Telecom Italia Mobile of Italy, Vodafone of the UK and Airtouch in the US. Some analysts believe that *over the next three years*, these companies will have an Ebitda compound annual growth rate of about 17 per cent.

Based on share prices last month, before the recent corrections, these companies have traded in a range of between 10 and 18 times 1999 Ebitda. At similar valuations, that indicates DoCoMo's market capitalisation in a settled market after the IPO could be between Y9,600bn and Y11,500bn, or a price per share of between Y5m and Y6m.

Naturally, the vendors will need to offer the shares at a discount of as much as 20 per cent to get the issue away, particularly given the recent market volatility.

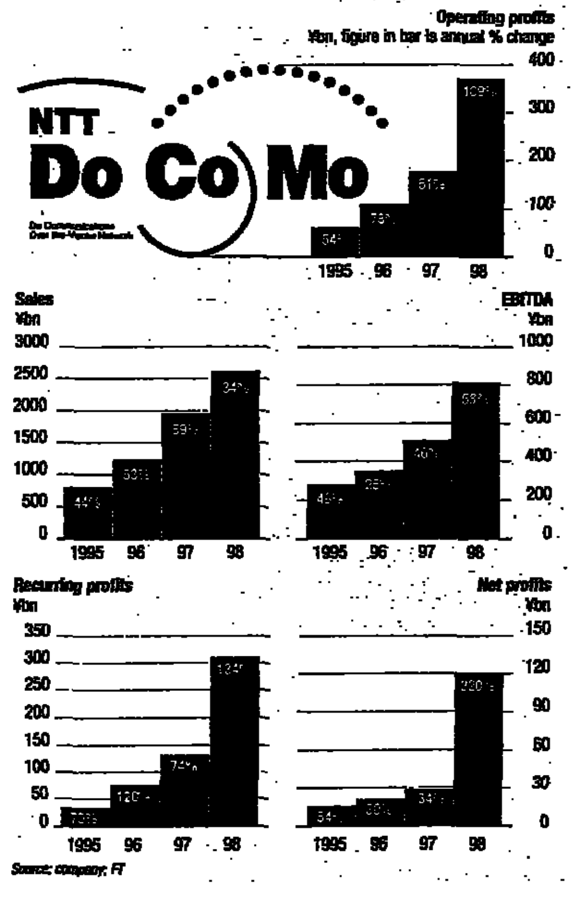
But these Ebitda estimates *include some significant* assumptions, and leave out some important factors. The assumption of 17 per cent compound annual growth rate until 2001 is aggressive given the slowdown in market growth and expected decline in margins.

Most important, however, Ebitda does not include capital spending. Arguably, *DoCoMo is planning to* invest a great deal more over the next five years than its US and European counterparts and there is no guarantee that it will generate a return above its cost of capital.

At best, Ebitda and other methods provide only an indication of value. But unless there is a crash in *global markets* in coming weeks, demand is likely to be heavy.

Some investors, such as index trackers, will have to buy the stock. For domestic institutions and retail investors, DoCoMo will probably prove attractive, not least because it is an unusual commodity – a growth stock in recessionary Japan.

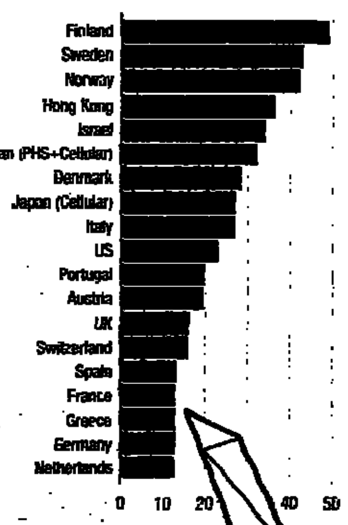
Even if DoCoMo's medium-term prospects are murky, the prospect of earnings growth for just the next few years is an enticing prospect.



Source: company; FT

DoCoMo: on paper, the biggest anywhere

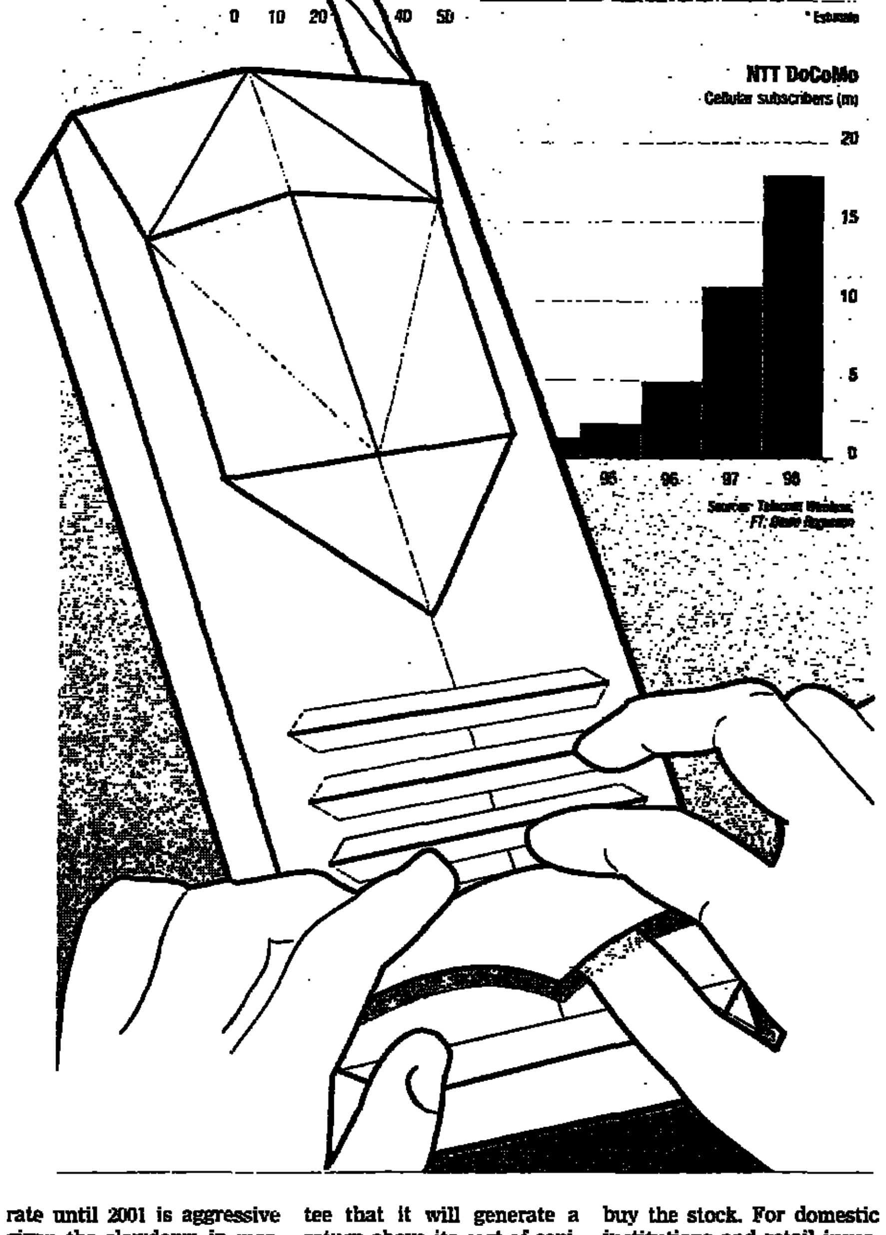
Global wireless penetration
Per cent (June 1998 figures)



Top 10 initial public offerings

Issuer	Country	Year	Size ($bn)
DoCoMo	Japan	1998	*15.0
NTT	Japan	1986	13.6
Deutsche Telekom	Germany	1996	13.3
British Petroleum	UK	1987	12.4
Telecom Italia	Italy	1997	10.9
UK electricity cos	UK	1991	10.2
Telstra	Australia	1997	10.0
UK water cos	UK	1989	8.5
British Gas	UK	1986	8.0
France Telecom	France	1997	7.0

* Estimate



TECHNOLOGY

Spending on new network could be a burden

By Michiyo Nakamoto in Tokyo

One source of concern for prospective DoCoMo shareholders is the heavy investment planned for the company's third-generation mobile communications network.

True to its roots as an offshoot of NTT, the technology-driven former public utility, DoCoMo has been a leader in the development of advanced W-CDMA (wideband code division multiple access) technology. Third-generation mobile networks, such as those based on the W-CDMA standard, will allow data as well as voice traffic to be sent through wireless terminals, because they will have much greater capacity than existing systems.

W-CDMA, which has been endorsed by the Japanese standardisation organisation and designated the European standard for third-generation mobile communications, is likely to expand DoCoMo's business reach far beyond Japan.

But at the same time it will put a substantial capital spending burden on the company. Over the next five years, DoCoMo expects capital spending to rise to about Y840bn a year, from Y724.2bn last year and Y392.3bn the year before. Once it starts building base stations and switches for the planned launch of W-CDMA services in mid-2001, the estimated cost of developing and building the network comes to more than Y2,000bn over a five-year period.

However, depending on the speed and nature of the roll-out and of the introduction of various services using the W-CDMA network, the costs could increase.

The question is whether the returns generated from W-CDMA services justify this level of spending.

Supporters of the technology argue that demand for such services will grow as mobile phone users want to send faxes, access e-mail, hold video conferences and browse the internet as well as talk to each other.

DoCoMo sees W-CDMA as the key to its global ambitions. It is the first time that a technology largely developed and promoted by a Japanese telecoms company has the chance of becoming a global standard.

Europe's adoption of W-CDMA as the next generation standard, and the support from Europe's leading equipment makers, increases the chances that W-CDMA will be adopted not only in Europe but also in many Asian countries, where the European GSM standard has been prevalent.

But while mobile computing and other multimedia services are likely to prove popular among business users, the future may not be as rosy as DoCoMo hopes.

For one thing, as with cellular networks, there is some concern about bandwidth availability. In Japan, the ministry of posts and telecommunications plans to allocate to three carriers 20 Mhz of bandwidth each for their third-generation cellular services. While it may be safe to assume that DoCoMo will be one of the three, 20Mhz may not be sufficient for it.

Equally uncertain is whether the price for the service will be prohibitively high. The limited bandwidth means that only one in every 100 users will be able to use real-time video conferencing – and that could cost up to 100 times more than cellular phone calls, according to one calculation.

DoCoMo also faces the risk of a patent battle with Qualcomm, the US telecoms company, which reportedly believes that certain W-CDMA technology infringes on its patents.

Nevertheless, W-CDMA is the key to DoCoMo's growth strategy. The company faces a fall in its historic rate of growth as the penetration rate for conventional mobile phones has climbed and average revenues per subscriber have declined, due to the spread of cellular phones among non-business users.

Its ability to take on new subscribers is constrained by a lack of spectrum capacity.

Unless it can roll out the new services quickly, growth will stall at a time when capital spending needs remain high.

OPTIONS FOR CHANGE A RESTRUCTURING IS UNDER WAY

Circumstances call for an acceptable compromise

By Michiyo Nakamoto in Tokyo

NTT is relinquishing some of its crown jewels by selling part of its stake in DoCoMo. Japan's largest telecommunications operator is selling 218,000 shares in its mobile phone subsidiary, which last year provided 50 per cent of NTT's consolidated recurring profits, *almost all its* consolidated earnings growth and about 70 per cent of its cash flow.

The sale will reduce its holding from 94.68 to 67.13 per cent, and *NTT is reluctant* to reduce that holding any further. But NTT may not have had any choice. Japan's telecoms authorities have been seeking to reduce the company's dominance, *and the sale of part of the* DoCoMo stake may have been a political necessity. The telecoms giant barely avoided a full-scale break-up; instead, it has been allowed to be reorganised under a holding company thanks to NTT-friendly politicians.

But there are good reasons why NTT would want to raise funds. It faces heavy investments at a time when *revenues are sluggish*. Although capital spending at *the parent level is due to fall* from Y1,887bn in 1998 to an estimated Y1,750bn in the year to March 1999, net debt *is expected to rise from* Y4,977bn last year to more than Y5,100bn over the next two years.

NTT also hopes that this year the ministry of finance, which still owns a 65.4 per *cent stake in the company*, will release a fourth tranche of shares. That prospect became more real this month, when the ministry *invited underwriting bids*.

However, since any sale of NTT shares would come after DoCoMo's IPO, NTT needs to provide investors with an incentive to buy. One option would be to use some of the proceeds from *the DoCoMo sale for a special* dividend.

While DoCoMo is building on the strength of its dominance at home to conquer *other markets, NTT* faces a profits squeeze.

Telephone revenues, which make up 70 per cent of parent revenues, are expected to fall nearly 5 per cent next year due to a sharp fall in basic fees and *call traffic*.

However, all is not gloom and doom. Analysts believe NTT's reorganisation will give it more freedom and *flexibility. In addition, the* explosion in internet use has spurred growth in NTT's ISDN services.

Finally, NTT will remain the largest shareholder in DoCoMo, and the mobile group's prospects will *continue to be a big part of* NTT's own growth plans.

SIMILAR FLOTATIONS: MIXED OUTCOME FOR SHARE PRICES

Keen overseas interest likely

By Vincent Boland

Apart from being the world's *largest initial public offering*, DoCoMo will also include the largest overseas tranche of shares ever, with the company hoping that international investors will buy up to Y600bn ($4.43bn) worth of the total value of the offering.

That is larger than the international tranche of the Deutsche Telekom privatisation in 1996, when investors outside Germany bought $4bn worth of shares, then the biggest slice of equity offered outside an issuer's domestic investor market.

Ironically, the biggest IPO before DoCoMo was of its parent, Nippon Telephone and Telegraph, in 1986.

The first batch of NTT shares sold by the Japanese government was worth $13.6bn, just shading Deutsche Telekom's sale 10 years later, which raised $13.3bn. The circumstances for all these flotations were different.

NTT was privatised as the Tokyo equity market was heading for its peak; Japanese shares have spent most of the 1990s in a severe slump, and the company's share price has been a poor performer. Floated at about Y2.2m a share, NTT's price had slumped to about half that level yesterday.

Indeed, the company's share price has been below the flotation price since the end of 1988, and there are even some investors who blame its flotation for partly causing the slump in Japanese equity prices.

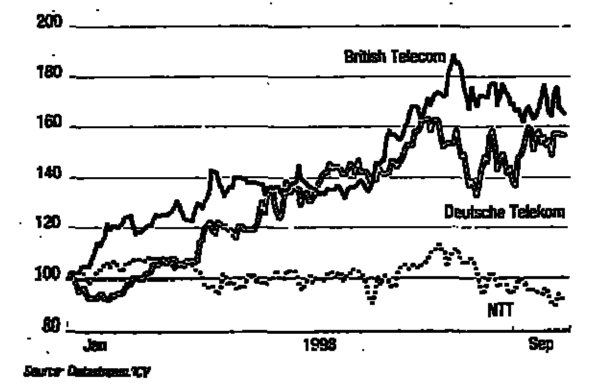
Bankers say that DoCoMo has few real peers in the telecommunications industry – it is by far the biggest mobile telephone company in the world. However, a couple of underperformers aside, telecommunications stocks, especially of privatised companies, have done well in the past decade. Deutsche Telekom has risen from its flotation price of DM28.50 to trade yesterday at DM50.30.

British Telecommunications, privatised in 1984, has risen more than five-fold from its flotation price to close yesterday at 757p.

France Telecom did better. Privatised a year ago at FFr187 a share as world equity markets were beginning to feel the effect of the Asian crisis, the price peaked at FFr490. It was still at about double its opening level yesterday, at FFr358.50 a share.

One telecoms analyst says these performances reflected that they were mature companies operating effective monopolies in their domestic markets. "DoCoMo is different because its business is mobile, but the question to be answered is whether its growth is behind it or ahead," he says.

A tale of three telecom companies
Share prices (rebased)



Source: Datastream/ICV

POOR PROSPECTS THE HANDYPHONE ARM HAS A DISMAL RECORD

PHS unit may prove a handful for new parent

By Paul Abrahams

If it were up to DoCoMo's management, the mobile telecommunications group would probably not be acquiring full control of NTT Personal, the parent's personal handyphone system (PHS) business. But in December, DoCoMo, which owns a 48 per cent stake, will become the complete owner of NTT Personal.

PHS has been a disaster. It has never made a profit, booking cumulative losses of Y225bn ($1.7bn) since 1995. Nor is there much prospect of a profit, let alone a positive return on investment. By one estimate, NTT Personal will be booking net losses and generating negative cashflow in 2005.

Nevertheless, the transfer price will be about Y220bn. But it will also have to accumulate write-offs of about Y165bn relating to past and future losses up to December this year. NTT, DoCoMo's parent, is anxious to get the business off its books and believes its mobile subsidiary, with its strong cashflow, is in a better position to deal with the mess.

The problem with PHS is that it has lost its rationale. The theory was that consumers would be willing to trade low cost for relatively poor functionality. But the rapid decline in cellular phone fees has almost eliminated any price advantage PHS might have had. The result is that the number of subscribers for all PHS services is falling, from 6.7m in March to 6.5m at the end of July.

The acquisition is not totally disastrous for DoCoMo, however. True, the predicted net losses from the business this financial year of Y83bn seem substantial, but most analysts believe these will not hit overall net profits too hard because of tax credits on the losses.

Of more significance will be the effects on the balance sheet, given that the business's liabilities exceeded its assets by Y198bn. However, the company expects the proceeds from the IPO to all but eliminate debt.

More worrying is the question of whether PHS will absorb a disproportionate amount of management time and attention. Executives must ensure that PHS's losses do not spin out of control. It will have to cut costs and reduce the churn rate – the number of subscribers quitting the service.

Although managers also believe they can raise revenues by generating synergies with the successful cellular operations – in effect, bundling the two together – the danger is that the business could become something of a distraction.

GM strike and Asian turmoil hit Pilkington

By Jonathan Guthrie

Pilkington, the world's largest glassmaker, warned yesterday that profits had been badly hit by a strike at General Motors in the US, economic turmoil in east Asia and South America, and currency fluctuations.

The announcement is the latest piece of bad news from the glassmaker, which is in the throes of a big restructuring launched by Paolo Scaroni, the chief executive appointed last year as a trouble shooter. It followed an initial profits warning about the GM strike in July.

Analysts cut profits forecasts yesterday. SG, the broker, made one of the biggest reductions, from £162m to £129m ($217m) for 1998-99. Goldman Sachs, more representatively, trimmed its figure by £15m to £137m.

The shares were unchanged at 60½p. They had already fallen sharply in anticipation of the statement, made ahead of the closed period preceding interim results on October 29.

The announcement prompted speculation that Pilkington could be taken over – analysts calculated the shares were at an 80p discount to the replacement value of assets.

Howard Seymour of ABN Amro said: "Any bidder would have to break Pilkington up – all the big glass producers have interests in some of its markets."

Pilkington said the strike at General Motors, an important customer of Pilkington Libbey Owens Ford, its US autoglass subsidiary, had cost it £7m. Profits from the subsidiary were reduced a further £4m in the first five months by the weakness of the yen. This had stemmed demand from Nippon Sheet Glass of Japan, which owns 20 per cent of the US autoglass operation.

Pilkington said that car production in South America, the destination for 10 per cent of its autoglass for new cars, was 15 per cent lower than last year and that demand would remain weak.

Exchange rate movements reduced profits by £13m. About £10m of the damage resulted from higher funding costs in Poland and Mexico, where operating profits in local currencies are used to meet interest charges denominated in D-Marks and dollars, which have risen against the zloty and peso.

Mr Scaroni said that demand was generally firm in the US and Europe and that Pilkington would "report progress" this year – interpreted by analysts as a signal that profits were unlikely to fall below the £125m achieved in 1997-98.

Mr Scaroni said: "I believe we are on track to deliver the reduction in costs of over £200m in two years we have promised." However, analysts questioned how much of the benefit would reach shareholders.

The company aims to cut a further 7,500 jobs by next summer, bringing its headcount to about 31,500.

Booker names chief executive

By David Blackwell

Booker, the food distribution group, has turned to Stuart Rose, former Argos chief executive, to restore its fortunes after two failed merger attempts.

Mr Rose is well regarded by the City following his vigorous – though ultimately unsuccessful – takeover defence of Argos this year.

His appointment as Booker chief executive was announced yesterday alongside the appointment as non-executive chairman of John Napier, who took distribution group Hays from a market capitalisation of £400m into the FTSE 100.

Booker shares responded by rising 14p to 105½p – still less than half the 249p ahead of Charles Bowen's dismissal as chief executive in March.

Jonathan Taylor, chairman, who postponed his planned August retirement as Booker's problems mounted, said the appointments were "just what Booker needs. It would be too easy to say they are a dream team – but they are very complementary."

Mr Rose is understood to have been offered an options package for 1m shares and a salary of about £400,000 – £76,000 more than Mr Bowen, who is still being paid a salary of £324,000.

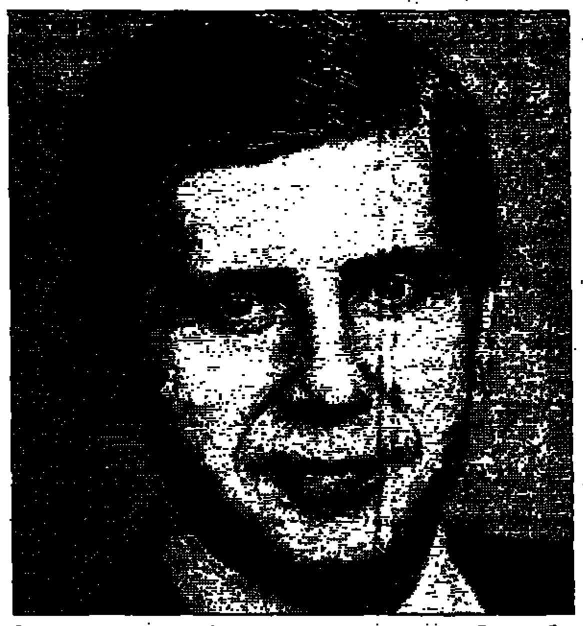
Analysts said there would be a lot of relief that the group had recruited someone with a strong reputation. "Mr Rose has the sort of pedigree that suggests he should be capable of sorting Booker out," said one. He pointed out, though, that the same had been said of Charles Bowen when he arrived.

Mr Rose said he was first approached by Booker in May, but matters had been delayed by the company's merger talks with, first, Somerfield and then Budgens, the supermarket groups. He was looking forward to developing the core business of food distribution and cash and carry.

"The group has a strong franchise that needs to be reinvigorated," said Mr Rose, who will start work in the next few days. He did not know Mr Napier well, but was delighted at his appointment and was sure they would make a good team.

Mr Rose, 49, who spent 17 years in the food divisions of Marks and Spencer, has made no secret of his desire to head a large independent retailer. He lasted just 10 weeks at Argos, which lost its independence in a £1.9bn takeover bid from Great Universal Stores. He turned down an offer from Lord Wolfson of Sunningdale, chairman of GUS, to stay with the merged group.

Mr Napier, 55, spent more than seven years as group managing director with Hays, during which time its market capitalisation grew from £400m to £4bn. He will join the board in November.



Stuart Rose: market welcomed his appointment Brendan Corr

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied London	Yr to June 30	21.9■	(24.6■)	16.13	(12.02)	15.5	(10.7)	2.96	Apr 7	2.82	4.2	4
Bisichi Mining	6 mths to June 30	1.59	(2.02)	0.307♥	(0.19)	2.35	(0.89)	-	-	-	-	0.9
Capital & Regional	6 mths to June 24★	19	(13.1)	3.58	(3.52)	4†	(5.8)	1.5	Apr 7	1	-	3.5
Close Brothers	Yr to July 31	-	(-)	69.6	(55.4)	37.9	(29.8)	9.6	Nov 3	8.2	14.4	12
Community Hsops	Yr to June 30	85.6	(75.5)	15.5♥	(14.4♥)	29.6	(29.9)	8.6	Nov 27	7.6	13	11.5
Core	6 mths to June 30	nil	(0.016)	2.5L	(1.92L)	8.6L†	(7.6L)	-	-	-	-	-
Forward Technology	6 mths to June 30	22.4	(23.3)	0.27L	(2.51L♠)	1L	(7.2L)	nil	-	nil	-	nil
London & Assoc	6 mths to June 30	3.59■	(3.05■)	1.02	(0.885)	1.03	(1.07)	-	-	-	-	0.9
Magnum Power ɸ	Yr to May 31	0.977	(0.843)	2.11L	(2.76L)	2.95L†	(4.48L)	-	-	-	-	-
Manchester United	Yr to July 31	87.9	(87.9)	14.1	(27.6)	3.9	(7.4)	1.18	Nov 25	1.075	1.7	1.55
Oasis Stores	6 mths to Aug 1	47.6	(39.6)	4.77	(3.68)	6.13	(4.7)	2.65	Nov 6	2.4	-	7
Proudfoot	6 mths to June 30	24	(21.9)	3.37	(2.57)	2.5	(2)	0.3	April	nil	-	0.5
Ricardo	Yr to June 30	82.4	(94.7)	8.01	(14L♠)	11.6	(33L)	4.4	Nov 27	4.3	6.6	6.3
Sanctuary	6 mths to June 30	8.48	(-)	0.494	(0.044)	0.47†	(0.24)	-	-	-	-	0.86
Seafield	6 mths to June 30	5.22	(5.1)	0.325	(0.421)	0.5	(0.6)	-	-	-	-	-
Semple Cochrane	Yr to June 30	46.8	(32.1)	2.18	(1.32)	19†	(12.6)	2.67	Nov 27	1.8	4	1.95
Shalibone	6 mths to June 30	12.9	(4.96)	0.646♠	(0.269)	8.5	(5.1)	1.6	Nov 6	1.5	-	4.5
United Energy	6 mths to June 30	2.7	(2.97)	0.188L	(0.5)	0.5L	(1.2)	-	-	-	-	-
World Telecom ɸ	6 mths to June 30	9.29	(3.22)	3.54L♠	(0.762L)	15.7L†	(4.3L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Premium	Yr to Aug 31	130.6	(128.3)	0.893	(0.848)	4.51	(4.28)	3⚲	Nov 27	2.5	4.5	4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ■Rental income. ♠After exceptional charge. ♥After exceptional credit. ★Comparatives restated. †On increased capital. ɸAim stock. ⚲Includes 0.25p special; 0.72p payable as foreign income dividend.

Close shares fall on warning of a slowdown

By Jane Martinson

Close Brothers, the independent investment bank, added to gloom about the UK economy yesterday when it warned that a slowdown would hit revenues over the short term.

Its shares fell 55p, or more than 10 per cent, to close at 466p, a 12-month low and half the peak reached in June.

The fall came even though the bank – London's second largest listed merchant bank – announced its 23rd successive year of increased profits, with a 26 per cent rise to £69.6m in the 12 months to July 31.

One broker cut his profits forecast by 12 per cent to about £65m for next year, the second downgrade in six months for the bank.

Rod Kent, managing director, said "signs of economic slowdown" were being felt in many of the group's 17 divisions. Its has three main areas of business: asset finance, corporate finance and investment management.

Mr Kent said the group's loans activity was particularly sensitive to the strength of the economy. Companies had started to ask for extensions or expressed difficulty in recent months. "We are a very, very sensitive indicator," he said. "We are right at the coalface, we don't need to read newspapers or forecasters to know that [things are difficult]."

Close deals with several engineering companies, but Mr Kent said difficulties had been noticed across the board. "This is not a manufacturing versus service sector thing, nor is it a north/south thing." The bank had absolutely no exposure to emerging markets, Asia, or hedge funds, all scenes of turmoil in recent months.

Mr Kent said the diversified nature of the bank's business would help it survive the difficult months ahead.

The bank has been subject to bid speculation in the past year, but Mr Kent said the group was "not a natural takeover target" partly because of its tightly held shareholder base.

Further gain for Billiton shares

By Kenneth Gooding

Billiton, the mining and metals group, was the best performing stock in the FTSE 100 index yesterday, when its shares closed up 11½p at 137½p, a rise of nearly 9 per cent.

The shares have jumped more than 40 per cent since dropping briefly to 98p on September 1, at which point Billiton was the year's worst performing constituent of the FTSE 100.

The company suggested the abrupt change in its fortunes followed successful "road shows" by the senior management team, led by Brian Gilbertson, chairman and chief executive, in the US and South Africa, as well as the UK. This gave it a chance to reinforce the upbeat messages that accompanied the preliminary results on September 7.

Analysts suggested that Billiton had attracted the attention of those investment funds in the US that seek out long-term value. Nigel Kieser, at JP Morgan, said: "The value story is very strong. The long-term value investors saw Billiton as dirt cheap."

He said that takeover rumours were also helping to lift Billiton shares. "Its aluminium business has got to be very attractive to someone like Alcoa [the US group], while there are lots of good things in the other operations that could be sold at attractive prices."

However, Mr Kieser discounted rumours that Rio Tinto, the world's biggest mining company, might make a run at Billiton. "It is not Rio's style to make hostile bids."

Russell Skirrow, at Merrill Lynch, is forecasting Billiton's attributable profit before exceptionals will fall to $375m this financial year, against $481m.

He suggested the share price would not rise much further and said he was expecting another setback.

Ashanti terms for Samax

Ashanti Goldfields, the London listed mining group, has slightly altered the terms of its agreed $137m offer for Samax, a Canadian exploration company also with operations in Africa. Ashanti is offering two options to its C$7.94 ($5.22) a share cash offer. One is of unlisted, guaranteed, unsecured, fixed-rate loan notes paying 5 per cent interest and redeemable between June 30 1999 and December 31 2004.

The other is unlisted equities, paying 2.5 per cent a year and mandatorily exchangeable into Ashanti ordinary at $7.10 a share. This gives Samax holders 0.72 of an Ashanti share per Samax ordinary. The options are not available to US shareholders.

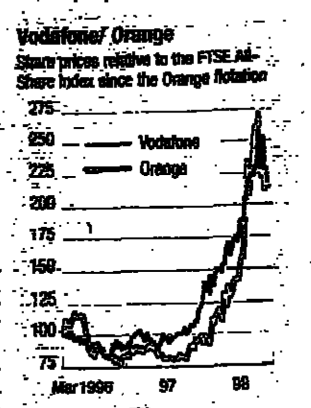
COMMENT

Mobile telecoms

Fancy stock market ratings and regulatory risk do not mix well. The prospect of the telecommunications regulator assessing the competitiveness of the mobile phone market turned investors' stomachs yesterday. But the regulator's wake-up call was hardly ear-splitting. At issue is whether mobile operators should have to make their networks accessible to rivals, and on what terms. Extending the existing regime – whereby mobile phone operators sell bulk capacity to service providers at a discount to their retail price – hardly spells disaster. Service providers are being marginalised, as customers prefer a simpler direct relationship with their operator.

Vodafone/ Orange

Share prices relative to the FTSE All-Share Index since the Orange flotation



Source: Datastream/ICV

The regulator, though, could impose a far harsher interconnection regime along the lines of the one that governs British Telecommunications in the fixed market. But such a move is not only unlikely; it would also be unwise. Heavy-handed regulation would risk undermining the incentive of the operators, two of which are still lossmaking, to complete rolling out their networks.

Admittedly, mobile phone call charges are still far higher than fixed-line calls. And Vodafone has 38 per cent of the mobile market. But that is still well below the stranglehold BT has in the fixed market. Moreover, there are four reasonably-balanced operators in mobile, prices are coming down fast, and subscriber growth has picked up. The magic of the market should be given more time to work.

Formula One

Some nest-egg. Formula One is raising $2bn via a bond issue. The business itself does not need any cash, and Bernie Ecclestone, the Formula One founder, does not seem keen to splurge out on a football club or two. The money will go into a trust fund for the Ecclestone family, which want sto realise some of the value in the business. Formula One says the bond issue will help warm up investor appetite ahead of a flotation.

Plans for an equity offering last year were shelved by disagreements between Mr Ecclestone and Formula One teams. Fences have apparently been mended, and investors may well lap up the debt – Formula One reckons it should attract a credit A rating. Mr Ecclestone must be hoping equity investors will follow by example.

Merchandising fall at Man Utd

By Patrick Harverson

Manchester United yesterday provided further evidence that the boom in football replica kits which has played a big part in transforming the sport's finances over the past few years, has peaked.

Reporting a 16 per cent drop in full-year merchandising revenues to £24.1m ($40.5m), the Premiership club, which has agreed a £623m bid from BSkyB, admitted demand for replica kits from fashion-conscious consumers had declined. However, it said the fall had been made worse by fans delaying purchases ahead of the arrival of a new home strip and to a change in the terms of a supply deal with a big retail customer.

Peter Kenyon, deputy chief executive and the man in overall charge of merchandising, admitted he had not seen as many people wearing replica kits on the streets as in the past. However, he said the club still expected to sell about 1m kits this season.

Meanwhile, United is looking to develop its overseas merchandising business, and will open its first foreign retail site in Dublin airport next month. Manchester United International, the new operation set up to co-ordinate overseas merchandising, plans to open 150 outlets which will be run in partnership with local franchise operators, across three regions: Ireland, Scandinavia and east Asia.

The decline in merchandising in the year to July 31 was however, almost offset by a £3.6m rise in television revenues to £16.2m in the wake of the Premier League's new deal with BSkyB.

Overall revenues were unchanged at £87.9m, while the improvement in high margin TV revenues meant pre-transfer profits rose to £29.8m (£27.3m). However, after net spending on players of £15.5m (£293,000 received), pre-tax profits fell from £27.6m to £14.1m.

Gate receipts were down slightly at £29.8m as a result of two fewer games being played at Old Trafford, the club's stadium.

Malta

As the political pendulum swings once more to the right, **James Blitz** and **Godfrey Grima** see a tough future ahead for the island

A wide vista of decisions

For the million and more tourists who come to Malta each year, the island offers an uncomplicated holiday of sun, sea and entertainment.

But for anybody who comes here trying to divine the long-term future of Malta's 370,000 inhabitants, the task *today* is more fraught and complicated than ever.

In the three decades since it achieved independence from Britain, Malta has never seemed quite sure of where its future lay. At times, under the Nationalist party, it has flirted with joining the increasingly integrated European continent to its north. Sometimes, as in the days of former Labour leader Dom Mintoff, it has indulged in a range of trading relationships with non-aligned and, occasionally, unsavoury regimes around the world.

Now, after a snap election earlier this month that returned a Nationalist government under Eddie Fenech-Adami, Malta is again plotting a course towards Europe. The Nationalists have revived their application for membership of the European Union and, technically, the proposal is being considered as part of the EU enlargement process.

But on the island itself, even after a resounding election victory, few people are truly sure whether the EU is where Malta will – or should – end up. Indeed, on many fronts – the economic outlook, the state of the public finances, the political scene – there is more anxiety than ever in the voices of its leading figures.

The uncertainty *is* far from surprising. Malta has, in the last three years, been through a series of acute political upheavals and there is no guarantee that the dust has yet settled.

Back in the autumn of 1996, the island brought to an end a decade of Nationalist rule and voted in a Labour government under a clever, introverted technocrat called Alfred Sant.

Its reason for voting out Mr Fenech-Adami at that time had many causes – ranging from his determination to try and raise value added tax on a range of products and services to a sense among the electorate that it was time for a change.

In the course of the last 12 months, Mr Sant – whose party had a majority of just one seat in the 69-member parliament – antagonised the majority. Fearful about the state of Malta's public finances, he set about a programme of dramatic tax increases and levies on water and electricity that infuriated public opinion.

Moreover, in a remarkable break with the island's political tradition, he refused to fill the boards of all of Malta's state-owned bodies – such as the public airline and banks – with party representatives.

The move was brave but triggered a far left revolt, led – remarkably enough – by the now 82-year-old Mr Mintoff. The revolt forced Mr Sant to go to the polls earlier this month, where he lost power less than two years after winning it.

The majority of five seats that Mr Fenech-Adami has acquired is, by Maltese standards, a strong platform from which to govern. But his administration faces a string of problems that will test the strength of even his most experienced ministers.

First, his EU application ambitions look unsteady. The Nationalists may have been returned, for now, on a pledge to enter Europe. But the outcome is uncertain, not least because of the new government's promise that it will hold a referendum on the issue before entry.

The polls suggest that nearly half the population is still uneasy about EU entry, believing the island has more to gain as an independent entity that can pick and choose its trading partners. Several key industries – shipbuilding, for example – are subsidised and protected by levies on trading competitors that would have to disappear with EU entry. There is doubt in Brussels, too, as to how important Malta really is in the already complex enlargement process.

Second, there is uncertainty about how committed the new government will be to restructure the public finances. This is an issue that is causing real concern to the International Monetary Fund which wrote earlier this year about the need for "decisive action to achieve a sustained improvement in the public finances".

The main problem facing the government is the size of the national debt which, in the last five years, has risen by 18 percentage points to 51 per cent of gross domestic product. With interest rates on the Maltese pound at 7.5 per cent, debt servicing costs now take up more than 8 per cent of public spending.

Mr Sant clearly took the view that the long-term projection of the debt was worrying. The revenue-raising measures he introduced may have cost him his job but they have nearly halved the budget deficit to around 7 per cent of GDP this year.

The question now is whether Mr Fenech-Adami is prepared to continue this process of deficit containment. His last administration was largely responsible for increasing the debt, so doubts on that score seem reasonable. A generous series of pledges he made in the last campaign – such as cutting water and electricity taxes – add to the concern. Asked what his policy on the debt to GDP ratio would be, he told the *Financial Times* on his first day in office: "We will try our best not to go over 60 per cent."

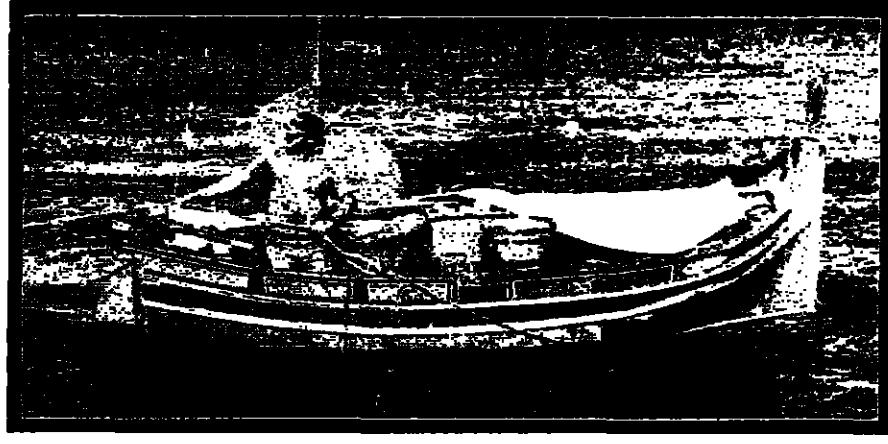
Finally, there are worries about the political outlook. The tension between government and opposition in Malta today could well reach heights it has not seen since the early 1980s.

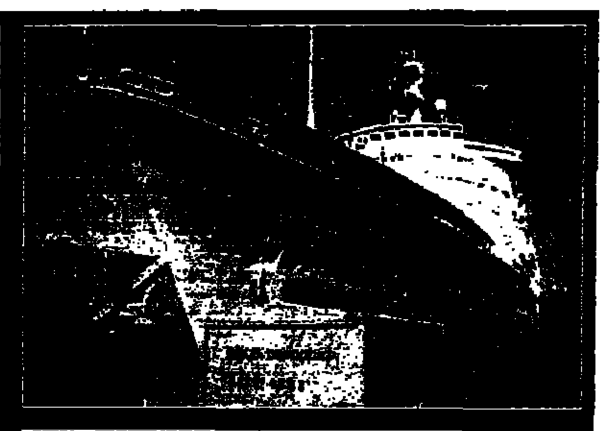
Mr Fenech-Adami looks as though he may follow Mr Sant's example by not putting party representatives in all the top state-run enterprises. But Labour alleges that it would have performed better in the last two elections – both the one it won and the one it lost – if it had not been for gerrymandering by Mr Fenech-Adami in the final years of the last Nationalist government. As a result, Labour is threatening not to sit in parliament when it reconvenes next month.

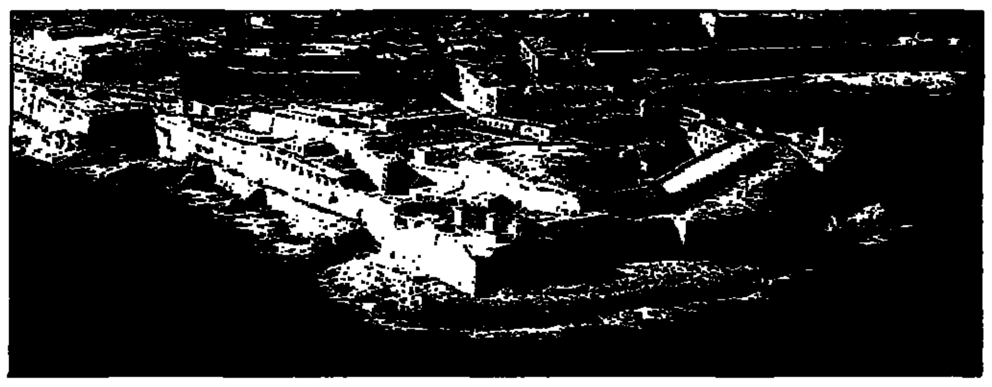
For many leading figures in Malta, that lack of political consensus is a worrying backdrop when they survey the challenges ahead. In recent days, Labour has hardened its opposition to the government's proposal for EU membership, enlarging the question mark over whether the country will eventually join at all. At the same time, there seems to be little public backing for the task of reining in debt to the extent that the IMF is requesting.

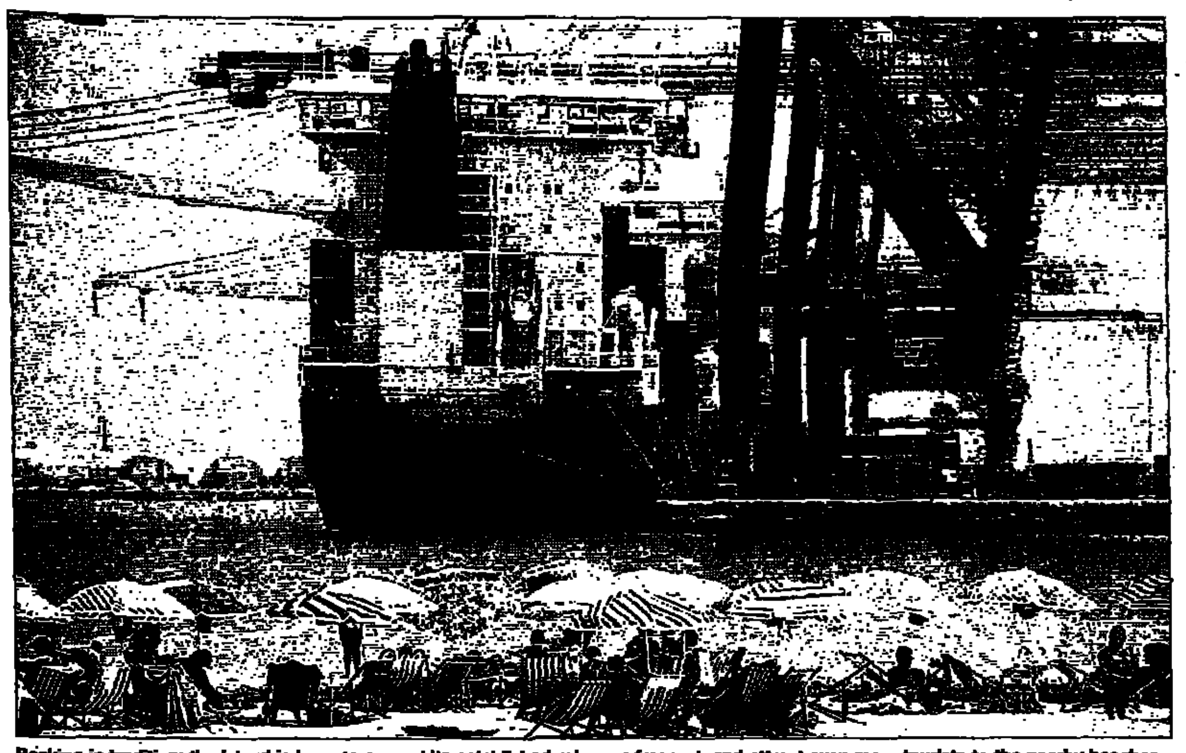
A conservative Maltese population has yet to be convinced of the need for change.

The summertime St Gaetan festival (above) and working the sea on a small scale (below) are old Maltese traditions. The freeport (right) is a striking example of one of the new growth areas on the island








Basking in tradition: the island is keen to expand its established role as a freeport, and attract even more tourists to the nearby beaches

THE FREEPORT • by Godfrey Grima

Global waters ahead

The port wants to be the unrivalled hub of the Mediterranean and beyond

Marin Hili, chairman of the Malta Freeport Corporation, displays little self-doubt as he outlines the direction containerised trade will take in the next few years.

"Regionalism is dead. It is not good enough being the best port in the area now. The future belongs to those who think global," he says, looking out on the sprawling duty-free container port at Hal Far that bristles with activity.

Mr Hili, who comes from a family shipping business, is widely acknowledged as the driving force behind Malta's success as a duty-free container transhipment port. This year, its best year ever, it will handle 1m throughput equivalent units (TEUs) – meeting its growth targets two years ahead of schedule. The figure will rise to 1.2m with the completion of a second terminal within the next month or so.

Inevitably the Maltese operation is hounded by stiff competition from rival Mediterranean ports. Goia Taro, the Calabrian port, is becoming increasingly popular and a new transhipment harbour is being built at Taranto in Italy. The unrelenting hunt for business has sent handling rates tumbling down.

Although the amount of cargo going through Europe and leaving Asia is on the increase, the trend of falling profits for transhipment ports is unlikely to be reversed in the near future.

Port operators are scrambling for new opportunities. Forging alliances and leasing port operations seem to be the more popular solutions.

The Port of Singapore, for example, is seriously interested in acquiring the management of the Maltese freeport. At the same time, Mr Hili, together with other partners, is hoping to lease the port of Brindisi, a home port in Italy handling 200,000 TEUs.

The prospect of spreading his wings outside Malta enthuses Mr Hili, but his main focus remains to develop Malta as the unquestioned hub port of the Mediterranean.

His next project is to create a thriving distribution centre at the terminal. The international trading companies and manufacturers that are being lobbied to warehouse cargoes here for sale later have responded encouragingly.

China's Orient International Group has sent a mission to discuss a possible deal and a well known Japanese carmaker is on the point of taking up the option, says Mr Hili. Buoyed by these prospects, he has ordered the construction of extensive additional warehousing on a 150,000 square metre site not far from another successful venture, Oiltanking, an oil storage terminal with a capacity of 359,000 cubic metres.

Being at the centre of the Mediterranean, at the crossroads between Europe and Africa, is an excellent location. But to win business shipowners have had to be guaranteed a faster turnaround of their ships and efficient handling of their cargoes.

Stepping up efficiency, says Mr Hili, is a never ending process. Real-time monitoring of container movement using sophisticated computer systems that incorporate Global Positioning System (GPS) equipment is just one of the modernisations that have helped make the usage rate on the terminal second only to that of Singapore.

TOURISM • by James Blitz

Space gets more cramped

Despite the crowded market, new hotels are still jostling into the resorts

Alfred Pisani, chairman of the Corinthia Hotels Group, looks out from a window high up in one of his many hotels and casts an anxious glimpse across the St George's resort in Malta.

Straight ahead of him, the construction of a huge new international hotel appears to be making quick progress. Nearby, giant cranes are at work laying the foundations of other holiday sites. All this on top of a vast range of four and five-star hotels that are already catering for the tourist market in one of Malta's most popular areas.

"For the tourists who come here, the choice of where to stay is clearly increasing," says Mr Pisani, whose hotel group generated $43m last year, making him one of Malta's leading hotel owners. "But for those of us in the business, trade here is becoming increasingly competitive, and profit margins can only get smaller over time."

Mr Pisani is not concerned that Malta is losing its popularity as a tourist resort. Far from it. Tourist visitors to the island – led by the British, Germans and Italians – have been progressively increasing over recent years. More than 1.1m tourists visited the island last year, representing a 5.4 per cent increase on the numbers that came in 1996. This year the figure looks set to be closer to 1.3m. Meanwhile, gross earnings from the business were up 9 per cent in 1997.

Moreover, the conversion of Malta into a tourist centre continues to be crucial to an island which, over recent decades, has gradually lost its importance as a military base. Receipts from tourism accounted for 60 per cent of the increase in exports of goods and services last year. Alongside manufacturing, it is still one of the most important sources of revenue for the country.

Yet the signs are that Malta – an island about the size of the Isle of Wight – is close to reaching full capacity as a tourist resort. "Malta is getting tough," says Mr Pisani. "The flow of tourists is good, but there is a limit to how many more visitors we can expect to attract."

It is easy to understand Mr Pisani's concern. Visitor numbers are indeed on the increase. But the number of nights that people are staying – especially in the more upmarket hotels – appears to be on the decrease. German and British tourists last year stayed, on average, half a day less in Malta than they did in 1996. The penchant for shorter, mini-break holidays among European professionals appears to be growing.

Making profits in the Maltese hotel business is increasingly hard, too. The base costs of running a hotel operation in Malta are high. Water and electricity bills are expensive by European standards. The very low unemployment rate – only 5 per cent last year – means that wage costs for hotel staff are bigger than at other Mediterranean resorts.

Nevertheless, Winston Zara, who owns the five-star Radisson SAS hotel at St George's, is confident about Malta's long-term potential. "Malta certainly has the capacity to attract yet more vistors," he says, "maybe even 1.4m or 1.5m a year. That would give us sustainable profits for a while."

There is some weight to this argument, too. With Europe looking as though it is escaping the turmoil in the international economy – at least for the time being – there are reasons to hope that the core British and German market will remain strong. The strength of both sterling and the D-Mark in recent times should certainly give many tourists more purchasing power. Mr Zara believes better international marketing of Maltese resorts would help to boost numbers. He himself is trying to increase demand by diversifying the activities of his hotel into areas such as business conferences.

Mr Pisani's less upbeat view should not be dismissed, however, not least because it is at the heart of what appears for now to be a successful strategy: the use of Malta as the base from which to expand his operations abroad rather than build yet more hotels on the island.

Just five of the 23 hotels owned by Corinthia are based in Malta itself. Mr Pisani's group now boasts five hotels in Turkey, two in Hungary and one in Tunis. Recently he added seven high quality hotels in the Czech Republic to his portfolio after a fiercely contested international auction. "You can certainly make money in the tourist trade here," he says. "But to be honest, I'm beginning to find it easier to make money elsewhere."

PROFILE Prime Minister Eddie Fenech-Adami

Back after a short break


Fired up for reform: the PM is geared up for problem-solving AP

Malta may be a small island of just 370,000 people. But in the wake of Eddie Fenech-Adami's re-election earlier this month, it showed that it takes politics as seriously as would be the case in all the other countries around the Mediterranean basin.

For three days after the election, supporters of his Nationalist Party were out on the streets of every town in the island, some of them riding around in jeeps, buses and open-top cars. Labour party posters were torn down or burnt. And there was an orgy of hooting, flag-waving and shouting.

Sitting in his office as the celebrations die down, Mr Fenech-Adami looks fairly indifferent to the rapture he received. He has the air of a man who has been out of office for a couple of weeks, not a couple of years.

Nevertheless, the recent election was fiercely contested with Alfred Sant's Labour party. The government clearly has a number of important challenges ahead. And hanging over Mr Fenech-Adami is the allegation that he only got back in with a five-seat majority this time because of gerrymandering carried out when he was last in government.

"There is no truth in that at all. It is a fiction of the mind," he snaps back when asked about the veracity of the claim. "The boundaries were set by an independent commission. Its members were approved way back in 1995 and the present leader of the opposition [Mr Sant] was involved in those appointments."

Mr Fenech-Adami says that, as far as he is concerned, there are two key issues now facing the country: its application to join the European Union and the state of the public finances. We'll tackle the public finances first."

Here, too, the prime minister is still in election mode, putting the blame for a difficult situation squarely on the shoulders of Mr Sant. "He went around all the time saying that the situation was terrible and, by doing so, he made the issue a good deal worse."

But Mr Fenech-Adami acknowledges, too, that there is a very real problem to be tackled – the huge rise in the government debt over the last few years makes a measure of budgetary discipline essential.

"We will try our best not to go over 60 per cent," he says, referring to the debt to gross domestic product ratio.

Given that the International Monetary Fund this year expressed concern about the speed with which the country seemed to be hurtling towards 60 per cent, "try our best" seems rather a limp commitment. "It's an objective that I strongly believe can be reached," he says, to add assurance.

Then there is the EU, to whose membership he has once again recommitted the island. Is it really in Malta's interests to join such a huge trading bloc which, almost certainly, will demand the removal of protective industrial subsidies and import levies?

Mr Fenech-Adami talks of two advantages that he believes can be gained. First, there is a "psychological boost" that the country's industry will receive once inside the EU, knowing that new markets have been opened up to it. And there is also inevitably a material benefit, too.

"Malta will be a net recipient of structural funds," he says. "I will push as hard as possible for Malta to be included." But he admits to be expecting a tough ride. "I'm looking at getting in somewhere between 2002 and 2004."

James Blitz

THE FINANCIAL SERVICES CENTRE • by Godfrey Grima

A fledgling haven

The MFSC is modelling itself on the successes of Dublin and Luxembourg

The Maltese Financial Services Centre (MFSC) is vying with the attractions of Luxembourg and Dublin to become a top European tax-friendly location for finance companies.

The Malta centre has clearly not had the same success as Dublin's International Financial Services Centre, which employs 40,000 people. But the island matches Dublin in terms of the quality and efficiency of service firms, language and GDP growth, according to the island's Federation of Industry.

The EU, which in 1997 set up its own code of conduct to guard against harmful tax competition, fears that double tax agreements, of which Malta has signed 26 with countries such as the UK, France, and several other OECD countries, may attract "free riders" – companies and individuals who benefit from public spending in their home countries but avoid contributing to its financing.

Professor Edward Scicluna, chairman of the MFSC, says the centre, which opened in 1988, is not a tax haven.

Investigations, he says, are welcome, as is the unearthing of Maltese "free riders" sheltering in European cities, largely London, where billions of Maltese lira are reputedly held in banks and government bonds – none of it disclosed to the Maltese revenue.

Despite its widespread reputation, the MFSC is not yet the automatic first choice for international investment companies. But Prof Scicluna says he has no wish to stimulate excessively rapid growth of the centre. The process of attracting the calibre of companies Malta wishes to host, as opposed to "brass plate" operations, cannot be rushed, he says.

The centre's success has been noteworthy, nonetheless. There are now 16 offshore banks and credit institutions, four banks, 12 credit institutions, 31 investment services companies and 78 collective investment schemes based in Malta. Some of the better known names include Fidelity, Barclays Bank, Commercial Union and Midland Bank. The French bank CCF has acquired a 21.3 per cent interest in a Maltese bank and Munich Re, the German reinsurer, a 12.7 per cent interest in Middle Sea, the local insurer. CIBC, the Canadian banking group has formed an alliance with an offshoot of Mid-Med Bank, the island's largest commercial bank.

Malta charges companies 35 per cent tax but awards credits through a system of concessions. But fiscal incentives are underpinned by tight controls. The centre is governed by legislation which makes money laundering, insider dealing and breaches of professional secrecy serious crimes.

Laws to regulate banking, financial investments, insurance, fund management, back office operations, trusts and partnerships dovetail effectively with EU regulations.

Prof Scicluna says efforts are now being made to woo captive insurers – the companies set up by large groups to underwrite business in-house, but offshore. Special legislation, based on the template of EU directives, was introduced last year to allow operators to write business from Malta and also qualify for tax concessions. Two companies, International Management Services and Willis Corroon, have already set up offices.

هكذا من الاصل

POLITICS • by James Blitz

The rapid toppling of a Blairite miniature

After two years in power, Alfred Sant has had to hand back the reins to his predecessor

Alfred Sant, the leader of Malta's Labour party, has just suffered the fate that some once feared might befall Britain's Tony Blair – a rebellion by his party's left wing to topple him from power.

For the last six years, Mr Sant, a clever, determined but somewhat introverted politician, has been taking Malta's Labour party on an epic voyage away from its left wing socialist roots in a manner that smacks of the Blairite project in the UK.

For decades before he came to office, the party had been under the control of the socialist Dom Mintoff, who led successive Labour governments into close relationships with countries like Colonel Gadaffi's Libya and Kim Il Sung's North Korea. Mr Sant, a Harvard graduate with a very good business brain, decided to carry out a volte face, turning the party into a Maltese New Labour.

Winning power in the autumn of 1996, he carried out a series of fiscally sound reforms of which any free market liberal would be proud. In less than two years, he slashed his country's budget deficit from 10 per cent to an expected 5 per cent this year, maintaining a tight grip on spending and trying to raise tax revenues.

It was all looking good. But then, as prime minister, Mr Sant soon found he possessed one serious weakness that Mr Blair does not have – the size of his majority. Mr Blair was elected in May 1997 with a majority of 178. Mr Sant came to office with a majority of one.

Thus, a revolt earlier this year by the left wing of the Maltese Labour party – led by the 82-year-old Mr Mintoff – left Mr Sant powerless to resist. Mr Mintoff made clear his hatred of Mr Sant's move to the right and his calls for fiscal restraint. The revolt forced Mr Sant to go to the polls again earlier this month, losing power to the Nationalists led by Eddie Fenech-Adami.

In the days since that defeat, Labour supporters have expressed mixed views of Mr Sant and his actions in government.

Many believe the broad strategy of seeking to curtail the public finances was correct, given the huge rise in Malta's public debt over the past 10 years. "There was a huge problem. Sant had been clear about that during the election campaign and he started to carry out his policies unwaveringly," says Vincent Farrugia, director of Malta's General Retailers and Traders Unions.

But the tactics which he used to bring down the budget deficit – introducing a range of highly unpopular levies on the use of water and electricity – was, in the view of many Labour supporters, too brusque and certain to lead to disaffection within his party, the unions and the public. "Sant is too clever for Malta and too naive for politics," says one senior Labour supporter who knows the former prime minister well.

Others take a different view. They argue that Mr Sant fell foul of what they regard as gerrymandering of Malta's election system by Malta's Nationalist government when it was last in office between 1987 and 1996.

They note that Mr Sant was elected by a majority of 7,800 Maltese voters in 1996 but had a majority of one seat in the 69-member parliament. Mr Fenech-Adami, however, has just got back into office with a 12,300 majority – double that of Mr Sant – but with a majority of five parliamentary seats. "Such a result could only come about by constructing the system of electoral districts in a way that supports the Nationalists," says one Labour supporter.

Mr Fenech-Adami vigorously rejects the gerrymandering charge. In an interview shortly after his election this month, he insisted that the new electoral boundaries had been drawn up by an independent commision backed by both himself and Mr Sant.

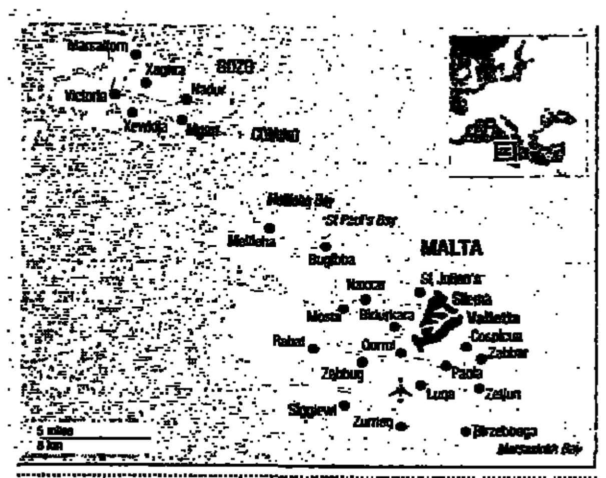
But whatever the rights and wrongs of the matter, squabbling over the issue between government and opposition is an unfortunate backdrop for the political season ahead.

What opens up now is a period in which Mr Fenech-Adami will face a tough political choice.

On the one hand, he has made a striking series of pledges in the run-up to the election that are certain to put upward pressure on spending if he keeps them. He has pledged to renew a stipend for university students, worth around $150 a month. He has pledged to "roll back" the commitment made by Mr Sant to increase charges for water and electricity consumption, both of which industries are subsidised by the Maltese state. People will be looking to him to meet those commitments.

On the other hand, Mr Fenech-Adami is all too aware of the concern within international financial bodies at the state of Malta's public finances. With the public debt in danger of breaching 60 per cent of GNP, an intense clampdown on the public finances may well be needed if debt servicing is not to spiral out of control.

Which way will Mr Fenech-Adami go? It is too soon for the outside world to know. And it may be that Mr Fenech-Adami does not yet know himself.



- Area: 316 sq km
- Languages: Maltese, English
- Currency: Maltese lira (LM)
- Exchange rate:
  1997 average $1 = LM 0.39
  Sept 23 1998 $1 = LM 0.38
- Population: 374,800 (1995)
- Main towns and population (1995)

Valletta (capital)	9,100
Birkirkara	22,100
Qormi	20,200
Sliema	13,500

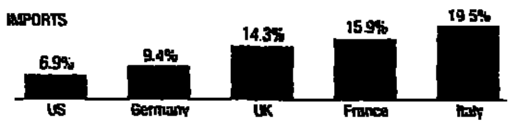
Economic summary

	1997	1998
Total GDP ($m)	508	511
Real GDP growth (annual % change)	2.4	2.2
Inflation (annual % change in CPI)	3.3	3.4
Unemployment rate (% of workforce)	4.5	4.8 *
Current account balance ($m)	-179.8	-165
Merchandise exports ($m)	245.5	135 *
Merchandise imports ($m)	384.2	192.5 *
Trade balance ($m)	-138.7	-57.4 *

Main trading partners (share of total trade to world 1996)

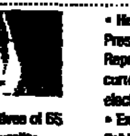
EXPORTS

IMPORTS



* to June 1998

Constitution



- Official name
  Republic of Malta
- Form of state
  Parliamentary republic
- Legislature
  Unicameral House of Representatives of 65 members directly elected on a plurality basis. The constitution provides for the allocation of extra seats should one party receive a majority of the popular vote but a minority of seats in the House of Representatives
- National elections
  September 1998; next election due by 2003
- Head of state
  President, elected by the House of Representatives for a five-year term; currently Ugo Mifsud Bonnici, who was elected in April 1994
- Executive
  Cabinet, appointed September 1998, headed by the prime minister (Eddie Fenech-Adami), responsible to parliament. There is currently a Nationalist Party government
- Main political parties
  Nationalist Party (PN); Malta Labour Party (MLP);

Sources: EIU; Maltese Central Office of Statistics

ECONOMY • by Godfrey Grima

Very little room for manoeuvre

To prepare for EU membership, the choices ahead are tough and extremely limited

Eddie Fenech-Adami, Malta's new prime minister, is faced with some difficult choices.

Particularly taxing is a public debt burden which, though lower than the Maastricht requirements, at 50 per cent of GDP, leaves the government little room for more borrowing. A second headache is a hefty deficit on the government's current account. A third is the island's domestic economy, which after more than three sluggish years will have to be revitalised if the government is to cut taxes, as promised at the polls.

The International Monetary Fund in March this year told the Maltese to tighten their grip on the economy by improving tax revenue and shaving spending. Even the tough fiscal measures introduced by Mr Sant's Labour government – which aimed to cut the deficit to 5 per cent by the year 2000 – were not enough to placate the IMF.

Optimistic Maltese envisage a speedy return to the golden years of the late 1980s and early 1990s when GDP doubled to LM1.1bn, unemployment disappeared and inflation fell to below 3 per cent. The more sceptical also recall how the good news came to an end with the national debt exploding and government deficits ballooning to unsustainable levels. Debts chalked up by loss-making public corporations now account for 41 per cent of GDP.

With interest rates running at a punishing 7.5 per cent, an additional LM50m is needed for debt servicing this year.

The point is not lost on John Dalli, the finance minister, who is now drafting next year's budget ready to go to parliament by November. There are a number of expensive drains on resources – 60 per cent of the country's budget goes to subsidise a burgeoning welfare state, a visibly overstaffed public service that employs 37 per cent of the country's workforce and inefficient state entities, including subsidised shipbuilding and ship repair yards, and water and electricity agencies.

But raising further debt is unappealing. Nor is increased taxation much of an option. For years Nationalist governments dismissed IMF criticism with the argument that the pressure can be taken off the balance of payments by building an efficient tax regime and by handing over the task of creating wealth to the private sector. This seems to be the plan again now.

Few expect Malta's new government to launch any substantial state-funded projects, except for road-building. Instead it is likely to approve a list of big tourist projects – exactly what the island's construction and quarrying industries need to get back to work.

But the IMF and credit agencies will still be disconcerted by the size of the deficit in government finances. Leo Brincat, the former finance minister, estimates that the shortfall will come down to LM70m this year from LM112m in 1997. But the improvement will be due to one-off sales of government assets, not to stronger government revenues, which is what the IMF wants to see. One of Mr Fenech-Adami's solutions will be his plan to introduce a new version of VAT, a hybrid between that launched unsuccessfully by the Nationalists in 1995 and Labour's customs and excise regime.

Selling off state entities has now become an economic necessity for Maltese governments but the list of saleable assets is small on an island of this size. Next under the hammer will probably be the island's airport terminal, a slice of the 67 per cent interest held by the state in Mid-Med Bank, the former Barclays operation, and a huge property inventory acquired from the island's Roman Catholic church that could equate to a third of the island. Once that is gone, there will be little else left to sell.

Hopes will be pinned on the underlying economic performance of Malta's industrial strengths. The tourism sector, which now attracts over 1m visitors a year, brought in LM249m in 1997.

Countries in Europe, the US and Asia snapped up LM547m-worth of semi-manufactured goods ranging from ships to semiconductors. Together, tourism and manufacturing now contribute 50 per cent of Malta's LM1.2bn gross national product.

Although inflation is expected to rise further this year, and unemployment, pushed up by anaemic domestic demand, has risen to 4.5 per cent, there are no signs that overall living standards are falling or that the population's propensity to save, at 14 per cent, is about to decline.

The challenges that face Mr Fenech-Adami go beyond resolving Malta's basic financial problems, arduous as these may appear. The real test is to prepare Malta for EU entry.

Once the application to join the EU starts making headway, Malta will have to align its economy properly with EU membership requirements. This complex process will involve taking some tough decisions, including pulling down some of the fences that ring many of the island's most successful economic activities, from manufacturing to financial services.

Flag for the future: Nationalist supporters celebrate the Maltese election victory AP

ACCESSION TO THE EU • by Godfrey Grima

Return to the fast track

As political control of Malta switches, so does its stance on joining the EU

Malta has again joined the queue of countries wishing to join the EU at the first opportunity.

Within a week of being swept into power this month, Eddie Fenech-Adami's Nationalist government officially informed Wolfgang Schüssel, who heads the Austrian presidency of the European Council, that Malta wants to pursue its membership application vigorously once again – filed in 1990 and put on hold for two years by the previous Labour government. Malta has all to gain and little to lose from joining the EU if it manages to align its economy more closely with EU membership rules, says Mr Fenech-Adami.

There is widespread support for membership on the island and the business community feels Malta has nowhere else to go.

The island's Chamber of Commerce and the Federation of Industry have been monitoring from an office in Brussels the implications of membership and are elated now that membership is again on the cards.

Jack Calamatta, general secretary of the General Workers Union (GWU), is less enthusiastic. He wants to see government dot the Is and cross the Ts before his union expresses its views.

"We want to see how government plans to guarantee a future for the island's ship repair yards which are substantially subsidised and for our factories," he says.

The Chamber of Commerce and the Federation of Industry, too, want to know what impact competition rules and the introduction of European economic and monetary union would have on aspects of the economy which are protected in some way.

One of Malta's stronger arguments for entry rests on the close affinities that exist between the island's economy and the EU. Many of Malta's administrative, legal and fiscal structures were aligned to EU standards in the 10 years Mr Fenech-Adami was in government until 1996. Admittedly much fine tuning is still needed to prepare the island's 370,000 inhabitants for the changes membership will bring to their social, political and economic life. However, Giorgio Boggio, the resident EU ambassador to Malta, says there is no need for the EU to retest Malta's testimonials.

Signs of Malta's close ties with the EU are clearly evident on the island. The many factories here which export a wide variety of semi-manufactured goods are owned by British, French, German and Italian companies. As a result, 66 per cent of visible Maltese import and export business is done with EU states. Malta's other important cash income activity – tourism – also depends heavily on EU markets for its survival.

Even so, a great divide separates Malta's two main parties on EU entry. Both political parties view membership as Malta's eventual destination but disagree on the timetable Malta should adopt. The Labour Party favours a more drawn out course beginning with the setting-up of a free trade zone. The process, it is argued, would help strengthen Malta's economic structures and soften the impact of full membership.

Mr Fenech-Adami, who has made EU entry the centrepiece of his foreign policy, firmly believes in grasping the nettle.

Irrespective of the timetable that will be endorsed in the eventual referendum which Mr Fenech-Adami has promised to hold, it lies with Brussels to decide whether Malta is a high-priority country.

Undivided attention is now being devoted to installing Emu firmly before the enlargement process is spurred into a gallop. Malta's case might take until 2005 to decide even though there seems to be a generally supportive attitude towards the island in Brussels.

In 1994, in Corfu, heads of government promised Malta it would be included in the next enlargement and a year later the European Council told Malta accession talks would start six months after the Intergovernmental Conference ended. The process of legislative harmonisation had already started by the time Mr Fenech-Adami lost power in October 1996. The island was awarded a Ecu 45m protocol with which to iron out some of its transition problems. Politicians spoke of the island being eligible for funds of LM40m once it became a member.

Despite its chances of early entry, Malta still has unfinished business to deal with. Brussels wants all distorted competition that discriminates against EU products to be dismantled. This means Malta must eliminate levies imposed against about 400 products to protect goods manufactured on the island for the domestic market. Levies are often stiff and range from 20 per cent to 60 per cent. This could take from three to five years. Brussels also wants to see Malta reintroduce VAT, an issue over which there should be little problem.

Increased national consensus will certainly help if Malta's application, which comes up for review again at the next EU summit in November, is to be put on the fast track.

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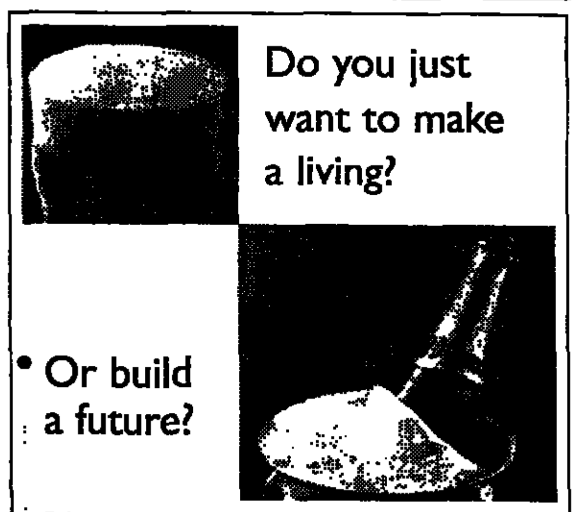

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One Southwark Bridge, London SE1 9HL

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FOR THE SALE OF THE FACTORY IN KYPARISSIA OF
"S.A. D'INDUSTRIE AGRICOLE" OF KALAMATA GREECE

ETHNIKI KEFALEOU S.A. Administration of Assets and Liabilities, of 9a Chrysospiliotissis Str., Athens 105 60, Greece in its capacity as Liquidator of "S.A. D'INDUSTRIE AGRICOLE", a company ...

ANNOUNCES A THIRD CALL FOR TENDERS ...

TERMS AND CONDITIONS OF THE AUCTION ...

[illegible]

HIGH GROWTH HIGH PROFIT
WOMENSWEAR BUSINESS

Rapidly growing fashion business with sales of £7.5M and profits of £0.97M and a young but experienced and focused management team seeks sale and/or merger with larger organisation to capitalise on growth opportunities.

Solid financial base and an enviable blue chip range of UK and European customers with considerable scope for further expansion.

Reply to box B6116, Financial Times, One Southwark Bridge, London SE1 9HL

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Successful Metal Finishing Company For Sale in the home counties with easy access to M40, M4, M25.

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- Good Growth potential which is forecast to double in two years.
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£430k.

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North West company - general engineering, modern C.N.C. and V.M.C. machines. Owners retiring. Turnover circa £300k. Good profits. Reputation for service and quality. ISO 9002 registered.

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Blackburn Lancs BB1 7AU

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Fax: (310) 553-0953

Company for sale

Expressions of interest are sought for the purchase of the total share capital in an established company specialising in commercial vehicle contract hire and rental. The company operates in the South-west of England and has a turnover in excess of £1 Million.

In the first instance please address enquiries to:
Box B6101, Financial Times, One Southwark Bridge, London SE1 9HL

CONTRACTS AND TENDERS

PTS POST & TELESTYRELSEN

THE NATIONAL POST AND TELECOM AGENCY (PTS) IN SWEDEN

An inivitation to Declaration of Interest in a licence to provide mobile radiobased telecommunications services for flight telephony, Terrestrial Flight Telephony System (TFTS), according to standard from European Telecommunications Standardisation Institute (ETSI)

The National Post and Telecom Agency's direction (PTSFS 1994:4) gives conditions for procedure as regards an application and principles of selection for a TFTS-licence in Sweden. Section 5 of the direction prescribes that no more then two TFTS-licences will be granted. PTS granted Telia a licence 11 May 1995 and Cable & Wireless Lightnet Ltd. a licence 8 February 1996 in providing mobile radiobased telecommunications for flight telephony according to the system TFTS. Cable & Wireless Flightnet Ltd.'s licence thought was withdrawn at their own request according to a PTS decision 30 May 1997 (Hk-97-7363). Anyone interested in the second licence should therefore submit a Declaration of interest in writing not later than 15 October 1998. The Declaration of interest is free of charge.

A time table for a possible invitation will be announced not later than 15 November 1998. After that regulations and a guide for applicants can be obtained through PTS. The application for a licence is subject to an application fee amounting to 100.000 SEK which should be paid to PTS.

A possible evaluation for licence will be based upon the Telecommunications Act (1993:597) and will proceed in stages according to PTS direction. PTSFS 1994:4.

Further information concerning the Declaration of Interest can be obtained from Patrick Soric, tel +46-8-678 55 98, or Ann-Marie Engvall, tel +46-8-678 56 58. FAX +46-8-678 55 05.

Post- och telestyrelsen
(National Post and Telecom Agency)
Box 5398, S-102 49, Stockholm, Sweden

CONTRACTS AND TENDERS

DOMINICA ELECTRICITY SERVICES LIMITED

EXPANSION OF ELECTRICITY GENERATION AND TRANSMISSION FACILITIES

NOTICE OF INVITATION TO TENDER

Dominica Electricity Services Limited have in preparation tender documents for the expansion of their electricity generation and transmission facilities on the island. The works to be let in separate lots on a complete turnkey basis are as follows:

Contract Number PSSS/99/1 comprising:

- Tarou Power Station
- Network Control Centre
- Substations at Tarou Power Station, Sugar Loaf and Fond Cole
- All civil, mechanical and electrical works
- Ship to shore fuel oil pipeline, including conventional buoy mooring facilities, to carry fuel direct from tankers moored offshore, to the power station.

The power station will initially comprise 2 X 4MW diesel generating sets, arranged for expansion up to 8 sets, and is to include the complete infrastructure including fuel storage, workshops, stores and offices.

Contract OHL/99/2 comprising:

33kV, overhead, woodpole supported, transmission lines, connecting power station and substations between:

- Tarou Power Station and Sugar Loaf Substation and
- Tarou Power Station and Fond Cole Substation

Tenderers will be required to indicate the nature and extent of work which could be provided locally.

It is intended that complete sets of tender documents be made available to selected companies in the third quarter of 1998, in exchange for a non-refundable fee for each set as follows:

- Contract PSSS/99/1, US$500
- Contract OHL/99/2, US$250

Companies with proven ability in undertaking similar projects in the Caribbean region are invited to provide 4 copies of their tender pre-qualification submissions to:

Kennedy and Donkin Limited
Chatsworth House
19 Lever Street
Manchester M1 3LT

Reference: DOMINICA SYSTEM EXPANSION

Tel: 0161 228 6282
Fax: 0161 228 3031

Companies who register their interest will be advised as soon as possible whether or not they are eligible to tender.

BUSINESS SERVICES

AMERICAN BUSINESS VISAS - US specialist for entrepreneurs and executives Tel/Fax +44 (0)1992 578909

LEGAL NOTICE

CAUSE NO. 537 OF 1998

VIVALET LTD. (IN LIQUIDATION)

IN THE GRAND COURT OF THE CAYMAN ISLANDS

NOTICE IS HEREBY GIVEN THAT the creditors of the above named company are required on or before 9th November 1998 to send in their full names and addresses and particulars of their debts or claims to me, G.J. Cleaver, Ernst & Young, PO Box 1034, George Town, Grand Cayman, Cayman Islands, B.W.I. (fax: # 1-345-949-8493) and if so required by notice in writing from me are, personally or by their attorneys, to prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

G.J. Cleaver
Liquidator

EQUITIES

Strong Wall St buoys bourses

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

European equity markets rose modestly yesterday, buoyed by a stronger-than-expected opening on Wall Street and hopes of a cut in US interest rates.

The FTSE Eurotop 300 index closed up 15.77 points at 1,028.02 while the FTSE Eurotop 100 index rose 30.32 to 2,349.79.

The FTSE Ebloc 100 index, which tracks the leading companies from countries joining European economic and monetary union in the first wave, rose 17.26 to end at 851.19.

The main focus of market attention was the mounting expectation that the US Federal open market committee (FOMC) would cut interest rates by at least a quarter of a percentage point after its meeting today, in reaction to the slowdown in global growth.

Germany's election result, with Gerhard Schröder's Social Democrats defeating Chancellor Helmut Kohl's Christian Democratic Union, had a relatively muted impact.

In the bond market, prices ended higher with UK gilts outperforming German bunds as investors hedged their positions in the wake of Mr Kohl's defeat.

Late in the session the 10-year benchmark bund was being quoted around 106.29, up 0.12 from the previous day, for a yield of 3.96, while the 10-year gilt was at 131 23/32, up 3/32, to yield 4.94.

Among FTSE sectors, other financials produced the strongest rise, up 5.42 per cent, with IMI up Ecu 1.4 at Ecu 12.28, Dexia up Ecu 3.2 at Ecu 131.52 and Amvescap Ecu 0.4 ahead at Ecu 5.40.

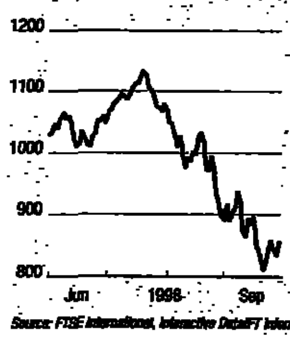
Life assurance jumped 4.52 per cent, helped by Aegon, up Ecu 4 at Ecu 72.05, and Alleanza, up Ecu 0.4 at Ecu 10.32.

Automobiles rose 3.78 per cent, with BMW up Ecu 50.3 at Ecu 585.49 and Volkswagen Ecu 5.1 higher at Ecu 63.64. Traders said speculation had resurfaced about co-operation between the two German companies. The market was also reacting to remarks by Alex Trotman, the chairman of Ford, who said it was open to the possibility of a merger.

Other strong sectors included household goods and textiles, up 4.18 per cent, and leisure and hotels, which rose 4.16 per cent.

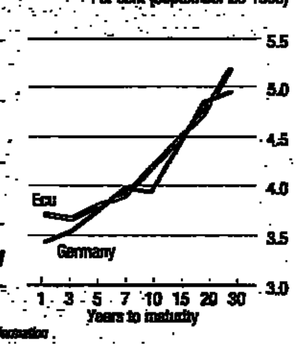
FTSE Eurobloc 100

Index



Bond yield curve

Per cent (September 28 1998)



Source: FTSE International, Interactive Data/FT Information.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

September 28 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1028.02	+1.56	+15.77	2.70	23.31	1056.37
FTSE Eurotop 100	2349.79	+1.31	+30.32	2.71	35.56	840.74
FTSE Ebloc 100	851.19	+2.07	+17.26	2.37	14.09	863.09

FTSE Eurotop 300 Regions: [illegible]

FTSE Eurotop Industry Sectors: [illegible]

Further information is available on http://www.ftse.com. © FTSE International Limited 1998. All rights reserved. [illegible]

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Nov	-	95.910	-	-	-	0	0
Mar	96.550	96.540	+0.005	96.550	96.550	46	5196
Jun	96.550	96.545	+0.015	96.550	96.550	49	2063
Sep	-	96.540	+0.020	-	-	0	1337

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
96375	0.050		0.105		0.065		0.120	
96500	0.010	0.020	0.055	0.190	0.150	0.160	0.195	0.150

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2353.0	2363.0	+33.0	2363.0	2327.0	75	6221
Mar	-	2371.5	+33.0	-	-	0	117

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2250 C	2250 P	2300 C	2300 P	2325 C	2325 P	2350 C	2350 P	2375 C	2375 P	2400 C	2400 P	2425 C	2425 P	2450 C	2450 P
Oct	143	76	111	97	96	108	83	118	72	131	62	146	50	161	41	178
Nov	203	133	173	153	159	163	148	175	133	187	121	200	109	214	98	228

Est vol total 10. Prev day's open interest total 5,153. Premiums shown are based on settlement prices.

OTHER INDICES

	Sep 28	Sep 25	Sep 24	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2812.17	2777.20	2824.60	3670.82	2574.51	3670.82	2709.98
DJ Euro Stx 50	2785.63	2743.04	2789.07	3658.48	2466.81	3658.48	2658.27
MSCI Europa	(u)	1021.78	1027.43	1315.55	960.50	1315.55	510.78

Source: Datastream of FT Information. *Subject to revision next day. (u) unavailable.

FTSE EUROTOP 300

Name | Price (Ecu) | Chge +or- | Mkt cap Ecu(bn) | Vol (m) | Yld

ALCOHOLIC BEVERAGES; AUTOMOBILES; BANKS, RETAIL; BREWERIES, PUBS & RESTAURANTS; BUILDING MATERIALS & MERCHANTS; CHEMICALS; CONSTRUCTION; DISTRIBUTORS; DIVERSIFIED INDUSTRIALS; ELECTRICITY; ELECTRONIC & ELECTRICAL EQPT.; ENGINEERING; EXTRACTIVE INDUSTRIES; FOOD PRODUCERS; GAS DISTRIBUTION; HEALTH CARE; HOUSEHOLD GOODS & TEXTILES; INFORMATION TECHNOLOGY; INSURANCE; INVESTMENT COMPANIES; LEISURE & HOTELS; LIFE INSURANCE; MEDIA; OIL, INTEGRATED; OTHER FINANCIAL; PAPER, PACKAGING & PRINTING; PHARMACEUTICALS; PROPERTY; RETAILERS, FOOD; RETAILERS, GENERAL; SUPPORT SERVICES; TELECOMMUNICATIONS; TOBACCO; TRANSPORT; WATER

[illegible]

Notes

Price data and market capitalisations supplied by FTSE International. [illegible]

CURRENCIES & MONEY

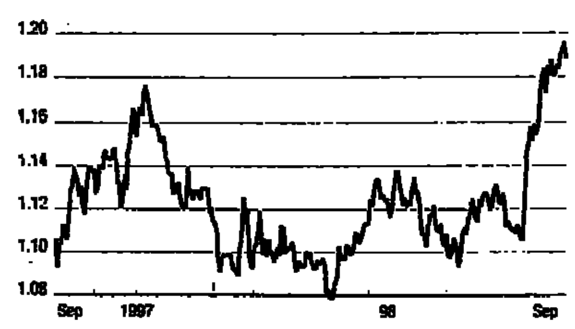
FT SYNTHETIC EURO RATES

Sep 28	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
[illegible]						
Australia	AUD	2.034604	+0.0040	+0.19	+0.0089	+0.44
Hong Kong	HKD	9.210162	-0.0525	-0.57	+0.0090	+0.10
Japan	JPY	162.093138	+0.2569	+0.16	+3.6388	+2.30
Singapore	SGD	2.019507	-0.0016	-0.08	-0.0391	-1.90
South Africa	ZAR	6.953981	-0.0101	-0.15	-0.3191	-4.39

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Sep 28	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0362	+0.01	+0.01	7.0365	3.52	+0.02
Belgium	20.6255	20.6355	-0.05	+0.00	20.635	3.49	-0.01
France	3.35386	3.3528	-0.03	-0.02	3.3529	3.51	+0.01
Finland	3.04001	3.0452	+0.17	+0.16	3.0448	3.45	-0.05
Ireland	0.402676	0.3997	-0.74	-0.70	0.4016	5.36	+1.86
Italy	990.002	988.8433	-0.12	-0.21	991.8524	4.69	+1.19
Luxembourg	20.6255	20.6355	+0.05	+0.00	20.635	3.49	-0.01
Netherlands	1.12674	1.1278	+0.08	+0.08	1.1271	3.33	-0.17
Portugal	102.505	102.5497	+0.04	-0.01	102.7008	4.08	+0.58
Spain	85.0722	84.934	-0.16	-0.20	85.0889	4.21	+0.71
Germany	1		+0.00	+0.00		3.5	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Sep 28	D-Mark Ask	D-Mark Bid	Ecu Ask	Ecu Bid	£ Stlg Ask	£ Stlg Bid	US $ Ask	US $ Bid	Yen Ask	Yen Bid
1 year	3.6	3.57	3.8	3.76	6.91	6.88	5.03	5	0.47	0.44
2 year	3.64	3.61	3.74	3.7	6.47	6.43	4.94	4.91	0.57	0.54
3 year	3.73	3.7	3.8	3.76	6.34	6.3	4.98	4.95	0.69	0.66
4 year	3.84	3.81	3.9	3.87	6.28	6.24	5.06	5.03	0.82	0.79
5 year	3.96	3.93	4.01	3.98	6.23	6.19	5.14	5.11	0.93	0.9
6 year	4.08	4.05	4.13	4.09	6.18	6.14	5.2	5.17	1.03	1
7 year	4.2	4.17	4.24	4.2	6.12	6.08	5.25	5.22	1.13	1.1
8 year	4.31	4.28	4.35	4.31	6.07	6.03	5.3	5.27	1.21	1.18
9 year	4.42	4.39	4.45	4.41	6.03	5.99	5.34	5.31	1.31	1.28
10 year	4.52	4.49	4.54	4.5	6	5.96	5.39	5.36	1.4	1.37
12 year	4.68	4.65	4.69	4.64	6	5.94	5.47	5.44	1.58	1.54
15 year	4.88	4.85	4.9	4.84	6	5.93	5.63	5.6	1.79	1.75
20 year	5.07	5.04	5.1	5.06	5.99	5.92	5.76	5.73	1.99	1.94
25 year	5.19	5.16	5.23	5.18	6	5.91	5.83	5.8	2.07	2.02
30 year	5.28	5.25	5.3	5.24	6	5.9	5.9	5.87	2.15	2.1

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Sep 28	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	111.290	4.27	-0.01	-0.24	+0.09
France (Rep of)	04/08	5.250	AAA	108.970	4.09	-0.01	-0.21	-0.09
Italy (Rep of)	05/08	5.000	AA	104.600	4.41	+0.04	-0.22	+0.23
Portugal (Rep of)	06/08	5.375	AA-	107.950	4.35	-0.01	-0.25	+0.17
Euro issues								
[illegible]								

Source: Interactive Data/FT Information. [illegible]

GOVERNMENT BOND SPREADS vs ECU

Sep 28	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	+0.02	+0.10	+0.24	+0.04	-0.30	+0.12
Belgium	-0.03	+0.05	+0.15	+0.13	+0.16	+0.02
Finland	-0.12	+0.14	+0.23	+0.21	-0.35	-0.79
France	-0.12	-0.07	-0.09	-0.07	-0.02	-0.18
Germany	-0.13	-0.05	+0.08	-0.24	+0.11	-0.23
Ireland	+0.34	-0.06	+0.08	+0.16	+0.24	+0.43
Italy	+0.25	+0.26	+0.32	+0.27	+0.21	+0.17
Luxembourg	-0.03	+0.05	+0.15	+0.13	+0.16	+0.02
[illegible]						

Source: Interactive Data/FT Information. [illegible]

EUROZONE CREDIT SPREADS vs ECU

[illegible]

Attention firmly on the Federal Reserve

GOVERNMENT BONDS

By Richard Tomkins in New York and Khozem Merchant in London

The decisive victory by Gerhard Schröder in the federal election in Germany at the weekend had minimal impact as attention in European markets remained fixed yesterday on the prospect of a cut in interest rates today by the US Federal Reserve.

There would be "very limited market implications" from the switch to the left in Germany, said Phil Tyson, senior analyst at HSBC.

Trading in GERMAN BUNDS was quiet anyway ahead of the Fed meeting, with the 10-year future settling down 0.01 at 113.61 with 300,000 contracts traded.

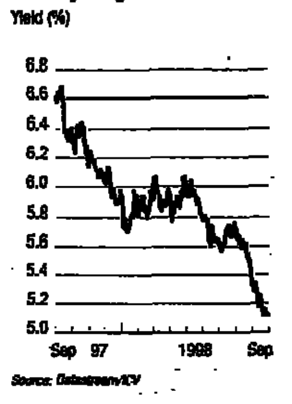
In the cash market, the yield on the 10-year bund stood at 3.97 per cent, while a strong performance by short-dated issues led to a further steepening of the yield curve, reflecting expectations of a more aggressive interest rate cut than previously expected. The long end of the market is still recovering from last week's big auction by the Bundesbank.

US TREASURIES were mixed in early trading ahead of today's meeting of the Federal Open Market Committee.

At noon, the 30-year bond was down ⅛ at 105⅛, yielding 5.134 per cent; the 10-year note was down ⅛ at 106⅛, yielding 4.579 per cent; and the two-year note was down 1/32 at 100¾, yielding 4.434 per cent.

US 30-year government bond

Yield (%)



Source: Datastream/ICV

Recent remarks by Alan Greenspan, Federal Reserve chairman, have indicated that the FOMC meeting may result in the first change in US interest rates since March 1997.

Based on the gradualist approach favoured in the past by Mr Greenspan, many analysts are expecting a cut of 25 basis points in the Fed funds target rate, now at 5.50 per cent. But some believe it will take an easing of 50 basis points to have the desired effect.

A cut of at least 25 basis points was priced into the market last week, so yesterday brought little movement as traders awaited the outcome of the FOMC meeting. In early trading, the yield curve flattened a little as the short end saw profit-taking based on last week's run-up, while the long bond made modest gains.

However, the picture changed later as stronger international markets and a sharp rise in equity prices diminished demand for the long bond, pushing it into negative territory.

Meanwhile, it was announced that testimony by Mr Greenspan before the House banking committee on risks posed to the financial system by hedge funds had been set for 10am on Thursday.

Robert Rubin, Treasury Secretary, said that he did not see a credit crunch arising from the problems associated with last week's near-collapse of the hedge fund, Long-Term Capital Management.

UK GILTS modestly outperformed other European markets, encouraged by the large unwinding of swaps transactions by one or two investors as a consequence of the continuing uncertainty in global financial markets. Technical factors rather than any "fundamental reassessment" drove the liquidation of positions, said Andy Bevan, senior international economist at Goldman Sachs.

"Attention is still firmly on the Fed; a 25-basis point cut is expected," he said, adding that the market may be disappointed by this modest reduction.

The December gilt future settled at 115.54, up 0.06, on turnover of 51,000 contracts on Liffe. In the cash market, the yield on 10-year gilts was 4.96 per cent.

The latest UK trade figures showed a deficit of £1.4bn. Analysts said the data, broadly expected, showed the balance of payments was stabilising.

Soul-searching by regulators after LTCM

The increasingly mainstream view is that many leveraged funds have grown large enough to pose a systemic risk, writes **Edward Luce**

Whether (and how) to regulate hedge funds is one of the key questions policy-makers will be asking in the next few days.

Although the $3.5bn bail-out of Long-Term Capital Management last week involved no public money, the New York Federal Reserve clearly thought it was "too big to fail".

This realisation, coupled with a growing sense of disquiet about the role played by leveraged investors in the recent emerging market crises, has ensured that the issue will be discussed at the World Bank/IMF meeting which starts in Washington today.

"Regulation is clearly on their [central banks'] minds," said one hedge fund manager based in New York. "But it is much easier said than done."

One of the pitfalls is that regulation could simply drive more hedge funds offshore, notwithstanding the fact that many already route most of their business through tax havens. LTCM, for example, is based in Greenwich, Connecticut, but is registered in the Cayman Islands.

Second, as private limited liability companies, most hedge funds operate at a high level of secrecy.

LTCM, which is one of the most inscrutable funds in the business, was notoriously bad at informing its own investors where its exposures lay. Getting hedge funds to disclose their so-called "value-at-risk" would therefore be an uphill struggle.

Third, hedge funds depend exclusively on wealthy individuals and professional investors for their capital subscription, whereas regulators are normally more concerned with the protection of the ordinary retail investor.

However, perhaps the trickiest objection is that many believe existing regulations are already flawed. The fact that so many leading banks had exposure to LTCM yet had no idea about the extent of how highly leveraged it was suggests that the regulated sector is not much better off.

"Bank credit departments were clearly ignored otherwise these banks would not have had such ridiculously high exposure to LTCM," said a hedge fund manager in London. Also, in LTCM's case many banks clearly waived the collateral requirements normally imposed on hedge funds.

'Bank credit departments were clearly ignored otherwise these banks would not have had such high exposure'

Any decision to extend regulatory oversight to hedge funds would therefore involve some soul-searching about the effectiveness of the internal controls banks use for their proprietary trading risk.

For example, a growing number of bankers worry about the accuracy of the methods used to "mark to market", where banks calculate their total trading exposures at the end of each day. Many believe the valuations used are too rosy or are not applied rigorously.

Louis Bacon, chairman of Moore Capital Management, a global hedge fund, says that existing "value-at-risk" models should be applied more effectively. Banks should also insist their hedge fund clients use standard "value-at-risk" models for their own operations.

Against this is the increasingly mainstream view that many leveraged funds have grown large enough to pose a systemic risk to the financial system.

The potential repercussions of an LTCM bankruptcy underlined this with many fearing it could have sparked a run on investment banks.

Perhaps more important, many economists have noted with growing concern the effect hedge fund losses in one market can have on another, unrelated market as the funds liquidate their positions to cover the higher margin calls.

This in effect links unrelated markets together and thus reduces the scope for non-leveraged investors to diversify their holdings. But again there is a problem of definition because investment banks themselves also take positions on margin.

"Leveraged investment in all its forms is a growing worry for regulators," said an economist at an investment bank. "It tends to exaggerate upswings and exaggerate downswings. A lot of people are starting to think that this problem should be addressed at the highest levels."

NEWS DIGEST

EMERGING MARKETS

Malaysia removed from further MSCI indices

Malaysia will be removed from Morgan Stanley's MSCI Emerging Markets Free series and the MSCI All Country Free indices by the end of November. The move is in response to the introduction of capital controls by the Malaysian government at the start of this month, and follows Morgan Stanley's removal earlier this month of Malaysian prices from its Developed Market series, one of the leading international indices used by investors.

Early this month, the Malaysian government imposed a series of capital controls, including obliging foreign investors to hold Malaysian securities for one year before repatriation. It also imposed a fixed exchange rate on the Malaysian ringgit of M$3.80 to the US dollar.

"The new restrictions as well as the uncertainty surrounding the future environment, particularly regarding the timing and value of the proceeds from sales of Malaysian securities, have de facto eliminated Malaysia from the universe of investment opportunities available to international investors," said Capital International Perspective, which manages and calculates Morgan Stanley's indices.

Capital International said Malaysia would continue to be a component of the broader Emerging Markets series, which measures the performance of emerging equity markets around the world, and the situation concerning Malaysia would be reviewed.

For investors still using the MSCI Malaysia index, a discount of 30 per cent will be applied to its valuation. The discount will be applied by using an exchange rate of M$5.43 to the dollar rather than the official rate.

With foreign investors locked into Malaysia for at least one year, the market balance has been artificially modified – the prices of Malaysian securities have moved up by 28 per cent since the end of August and by 47 per cent since the start of September. **Emiko Terazono**

ASIAN BONDS

Schroders to launch fund

Schroder, the UK investment house, is bucking market perceptions to launch an Asian bond fund next month. Despite the Asian financial crisis of the past 18 months, Schroder believes Asian economies will bounce back.

"The pricing of default risk in Asia is too high at the moment. We believe the region will recover quickly because it contains the key ingredients for growth, such as a young, educated and cheap workforce," said Kelvin Blacklock, fund manager at Schroder.

The Schroder Asia bond fund will take on three broad classes of risks: currency, interest rate and credit. Some 60 per cent of the fund will comprise corporate and government debt. Schroder manages more than S31bn in Asian markets (excluding Japan); some $2.2bn is in Asian fixed income, of which $420m is invested in emerging debt markets. **Khozem Merchant**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Sep 28	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.8811	4.59	−0.05	−0.22	−1.34	−0.12
	08/08	6.750	127.7574	5.13	−0.04	−0.08	−0.97	−1.02
Austria	07/00	5.875	103.8600	3.59	−0.04	−0.11	−0.15	−0.74
	01/08	5.000	105.6400	4.25	+0.02	+0.07	−0.23	−1.32
Belgium	01/00	4.000	100.5800	3.52	−0.06	−0.10	−0.16	−0.62
	03/08	5.750	111.2900	4.27	−0.01	+0.05	−0.24	−1.35
Canada	03/00	5.000	100.1200	4.91	−0.02	−0.23	−0.82	+0.92
	06/08	6.000	107.2400	5.04	−	−0.09	−0.86	−0.65
Denmark	11/00	9.000	108.7800	4.54	−0.12	−0.88	+0.02	−0.10
	11/07	7.000	116.5400	4.72	−0.05	−0.20	−0.12	−1.30
Finland	01/99	11.000	102.1200	3.06	+0.01	+0.02	−0.28	−1.07
	04/08	6.000	112.4940	4.37	+0.02	+0.02	−0.23	−1.34
France	01/00	4.000	100.6300	3.47	−0.02	−0.07	−0.13	−0.66
	04/05	7.500	121.0900	3.80	−	+0.03	−0.23	−1.34
	04/08	5.250	108.9700	4.09	−0.01	+0.04	−0.21	−1.40
	04/29	5.500	107.6200	5.01	+0.04	+0.19	−0.02	−1.11
Germany	03/00	4.000	100.8100	3.41	−0.02	−0.02	+0.05	−0.56
	10/05	6.500	115.2200	3.97	−0.01	+0.07	−0.15	−1.23
	01/08	5.250	109.3500	4.02	−	+0.10	−0.17	−1.52
	01/28	5.625	110.2000	4.96	+0.01	+0.20	−0.03	−1.22
Ireland	10/01	6.500	107.6000	3.82	−0.03	−0.07	−0.47	−1.63
	08/08	6.000	113.1500	4.33	−0.02	+0.02	−0.26	−1.66
Italy	04/01	4.500	101.6200	3.81	−0.03	−0.08	−0.32	−1.41
	05/03	4.750	103.2300	3.97	−0.02	−0.06	−0.33	−1.54
	05/08	5.000	104.7200	4.38	−0.01	+0.01	−0.31	−1.65
	11/27	6.500	118.3500	5.25	−	+0.03	−0.10	−1.36
Japan	03/00	6.400	108.9000	0.28	−	+0.02	−0.13	−0.17
	06/03	4.500	117.7800	0.68	+0.04	+0.04	−0.19	−0.74
	09/05	3.000	115.3300	0.74	+0.02	−0.04	−0.39	−1.22
	03/18	2.700	121.8400	1.41	−0.02	−0.06	−0.54	−1.38
Netherlands	05/00	9.000	108.4100	3.52	−0.02	−0.01	−0.09	−0.61
	07/08	5.250	109.0000	4.11	−0.01	+0.05	−0.23	−1.38
New Zealand	02/01	8.000	104.7379	5.77	−	−0.23	−0.88	−1.02
	11/06	8.000	114.1533	5.79	−0.02	−0.11	−0.69	−0.81
Norway	01/99	9.000	100.2330	7.79	−	−	−0.02	+3.45
	01/07	6.750	108.4000	5.48	−0.03	−0.01	−0.82	−0.36
Portugal	03/00	5.375	102.5600	3.54	−0.06	−0.01	−0.27	−1.38
	06/08	5.375	107.6800	4.38	−0.02	+0.02	−0.24	−1.58
Spain	04/00	6.750	104.5700	3.60	−0.03	−0.05	−0.22	−1.14
	01/08	6.000	112.0500	4.39	−0.02	+0.02	−0.27	−1.51
Sweden	05/00	10.250	108.8500	4.31	−0.03	−0.12	−0.10	−0.44
	05/08	6.500	112.4270	4.84	−0.03	−0.04	−0.05	−1.29
Switzerland	03/00	5.000	104.8800	1.53	−0.05	+0.03	−0.18	−0.21
	06/07	4.500	113.6000	2.72	−0.01	+0.08	+0.14	−0.82
UK	11/01	7.000	104.2400	5.49	−0.05	−0.07	−0.52	−1.32
	12/03	6.500	106.3516	5.09	−0.06	−0.05	−0.46	−1.30
	12/07	7.250	117.2031	4.90	−0.08	−	−0.38	−1.51
	12/28	6.000	123.7813	4.54	−0.13	−0.11	−0.54	−2.02
US	05/00	5.500	101.4629	4.57	+0.02	−0.14	−0.43	−1.24
	05/03	5.500	104.1119	4.49	+0.02	−0.11	−0.53	−1.68
	05/08	5.625	108.0543	4.58	−0.01	−0.08	−0.50	−1.50
	11/27	6.125	112.8104	5.35	+0.02	+0.01	−0.18	−1.10
ECU	07/00	4.000	100.7100	3.57	−0.05	−0.11	−0.25	−0.80
	04/08	5.250	108.5300	4.15	−0.01	+0.03	−0.20	−1.56

London closing. *New York mid day. Source: Interactive Data/FT Information

Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Sep 28	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.12	+7.18	+0.54
Austria	4.22	+0.28	−0.36
Belgium	4.31	+0.37	−0.27
Canada	5.05	+1.11	+0.47
Denmark	4.70	+0.76	+0.12
Finland	4.39	+0.45	−0.19
France	4.11	+0.17	−0.47
Germany	3.94	−	−0.64
Ireland	4.34	+0.40	−0.24
Italy	4.45	+0.51	−0.13
Japan	0.84	−3.10	−3.74
Netherlands	4.11	+0.17	−0.47
New Zealand	5.79	+1.85	+1.21
Norway	5.42	+1.48	+0.84
Portugal	4.40	+0.46	−0.18
Spain	4.48	+0.54	−0.10
Sweden	4.86	+0.92	+0.28
Switzerland	2.91	−1.03	−1.67
UK	4.79	+0.85	+0.21
US	4.58	+0.64	−
ECU	4.18	+0.24	−0.40

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Sep 28	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	92.2044	9.74	−0.61	−1.05	+5.35
Poland	07/04	7.125	BBB−	101.4616	6.80	−0.03	−1.96	+2.38
Russia	06/07	10.000	CCC−	24.2500	45.14	+0.39	+45.14	+40.60
LATIN AMERICA								
Argentina	09/27	9.750	BB	86.3400	11.37	−0.66	−4.11	+6.26
Brazil	05/27	10.125	BB−	64.1880	15.88	−0.68	−2.28	+10.77
Mexico	05/26	11.500	BB	101.5000	11.32	−0.15	−2.42	+6.24
ASIA								
China	07/06	7.750	BBB+	95.3300	8.59	−0.01	−2.19	+4.09
Philippines	10/16	8.750	BB+	74.5120	12.30	−0.08	−1.02	+7.50
Thailand	04/07	7.750	BBB−	80.4195	11.40	−1.46	−2.05	+6.86
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB−	102.9366	7.32	−0.61	−2.96	+2.90
South Africa	10/06	8.375	BB+	85.8654	11.12	−0.55	−0.81	+6.62
Turkey	09/07	10.000	B	83.0000	13.36	−0.93	−2.10	+8.82
BRADY BONDS								
Argentina	03/23	5.750	BB	70.0000	9.05	−0.30	−1.68	+4.05
Brazil	04/14	5.000	BB−	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	12/19	6.250	BB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	03/20	6.750	B+	65.2500	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	109.96	110.18	+0.13	110.40	109.92	84,173	108,895

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
103	7.18	7.18	-	-	-	-
104	6.18	6.18	-	-	-	-
105	5.18	5.18	-	-	-	0.01
106	4.18	4.22	-	-	-	0.02

Est. vol. total, Calls 530 Puts 6,485. Previous day's open int., Calls 28,771 Puts 37,948.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.50	113.60	−0.05	113.71	113.50	43	5237
Mar	-	114.08	+0.01	-	-	0	0

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.70	113.61	−0.13	113.91	113.36	300,330	625,145
Mar	113.88	114.08	+0.04	114.25	113.88	503	12,069

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
11350	0.86	1.18	1.64	0.76	1.08	1.06
11400	0.63	0.94	1.37	1.03	1.34	1.29
11450	0.44	0.74	1.13	1.34	1.64	1.55

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5708 Puts 4840

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.16	108.25	+0.04	108.32	108.00	100274	272,396
Mar	-	107.87	−0.02	-	-	251	2,877

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.13	111.23	+0.10	111.36	111.08	12114	85408
Mar	-	111.23	+0.10	-	-	0	10

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Nov	Calls Dec	Puts Nov	Puts Dec
11100	0.58	0.99	0.35	0.76
11150	0.33	0.74	0.60	1.01
11200	0.17	0.54	0.94	1.31

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 125 Puts 2285

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.85	114.88	+0.07	115.14	114.81	55,158	105,363
Mar	-	114.33	+0.12	-	-	-	-

UK

NOTIONAL 6 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	107.34	+0.22	-	-	0	40
Dec	-	107.45	+0.18	-	-	0	1874

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114.96	115.16	+0.46	115.20	114.96	322	3792
Dec	114.75	115.54	+0.60	115.88	114.73	91319	147533

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
11550	0.84	1.39	1.72	0.90	1.35	1.38
11600	0.71	1.18	1.47	1.17	1.64	1.63
11650	0.53	1.00	1.24	1.49	1.96	1.90

Est. vol. total, Calls 4762 Puts 280. Previous day's open int., Calls 38636 Puts 34559

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	129-25	129-31	-	130-01	129-20	505,325	708,907
Mar	129-15	129-19	-	129-20	129-10	1,598	72,224
Jun	-	-	-	-	-	218	809

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	138.73	138.61	-	138.72	138.51	783	n/a
Mar	137.88	137.82	-	137.89	137.86	11	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	108.30	−0.08	-	-	0	0

US CORPORATE BONDS

[illegible]

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

D-Mark weakens as SDP triumphs

MARKETS REPORT

By Andrew Balls and Christopher Adams

The D-Mark weakened against the dollar as German business leaders warned against a return to tax and spend policies.

Few currency dealers predicted such a crushing defeat for Helmut Kohl in Sunday's German elections. Gerhard Schröder's Social and Democratic Party, which defeated Mr Kohl's Christian Democratic Union party, is negotiating the terms of a coalition with the Greens.

The Greens have previously demanded a commitment to hefty increases in indirect taxes as a condition for entering such a coalition.

Oskar Lafontaine, chairman of the SDP and a candidate for finance minister in the new government, called for a cut in interest rates to help fight high German unemployment.

The D-Mark lost a pfenning, falling from DM1.67 to DM1.68 against the dollar by the end of trading hours in London.

■ Markets abhor policy confusion. In normal times, a weakening D-Mark would be expected. But these are not normal times. With deepening turmoil in emerging markets, jittery stock markets, and concerns about the US economy, the D-Mark continues to offer a haven.

Economists played down fears over potential fall-out for the German currency.

"The affects of the German election are pretty minimal," said Alison Cottrell, international economist at Paine Webber. "This is not a government that controls interest rates. Nor one that will do anything radically different on fiscal policy".

Moreover, although an unknown quantity, Mr Schröder is more pragmatic than ideological. His success is largely the result of adopting economic policies broadly similar to the party the SDP has now booted out of office.

■ A deal on financial reform between Japan's ruling Liberal Democratic Party and opposition parties, apparently ending weeks of political wrangling, failed to lift the yen.

Currency strategists were sceptical that the agreement would bring about the far-reaching changes needed to stem the economy's slide.

Under the terms of the agreement, reached at the weekend, Japan's ailing Long Term Credit Bank (LTCB) will be nationalised, its non-performing loans put into a resolution bank, and the rest of the business sold, possibly to Sumitomo Trust.

The deal included an undertaking not to provide LTCB with the public funds needed to write off Y520bn of loans to Japanese Leasing and two other affiliates.

"Cutting off debtors such as Japan Lease is a positive sign that some of the most egregious inefficiencies in the financial system will be trimmed down, which will be positive in the long term," said Ken Landon of Deutsche Bank in Tokyo.

But he added that plans to set up an apparently independent regulator to oversee the clean-up of the banking system would not remove the ingredients that have caused the banking system's difficulties.

The yen lost ground against the dollar, slipping from Y135.4 to Y136.4, before rallying after the end of trade in London.

■ Expectations of a cut in US interest rates will be put to the test today, when the FOMC meets.

Alan Greenspan, chairman of the US Fed, indicated last week that rates may have peaked.

Yesterday, US Treasury secretary Robert Rubin spoke out.

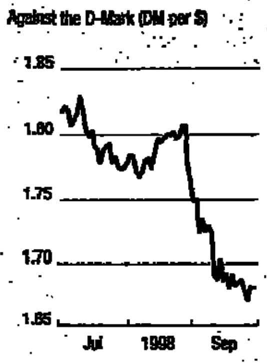
"Our dollar policy remains the same. As we've said over the last couple of years, a great concern of ours and one we share with the Japanese government is the weakness of the yen."

Analysts said the crisis in Latin American economies, and Brazil in particular, which holds elections on Sunday, would weigh heavily on the FOMC.

"The question is whether it will be a quarter or a half point. Everyone expects a move. If there is no cut, after Mr Greenspan highlighted the risks last week, it would send a confusing message. This would be more of a worry for the stock market than currencies," said Gerard Lyons, chief economist at DKB International.

Dollar

Against the D-Mark (DM per $)



Source: Datastream/ICV

POUND IN NEW YORK

Sep 28	—Latest—	– Prev. close –
£ spot	1.7045	1.6985
1 mth	1.7016	1.6956
3 mth	1.6959	1.6900
1 yr	1.6755	1.6695

OTHER CURRENCIES

Sep 28	£	$
Czech Rp	51.2605 - 51.3257	30.0860 - 30.1160
Hungary	373.541 - 373.889	219.240 - 219.380
Iran	5108.90 - 5106.00	3000.00 - 3000.00
Kuwait	0.5173 - 0.5178	0.3036 - 0.3038
Peru	5.1847 - 5.1896	3.0430 - 3.0450
Poland	6.0664 - 6.0733	3.5605 - 3.5635
Russia	27.2389 - 27.3540	15.9860 - 16.0500
U.A.E.	6.2577 - 6.2601	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Sep 28		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.1503	+0.1329	445 - 561	20.1750	19.9959	20.0845	3.9	19.9612	3.8	19.5374	3.0	104.0
Belgium	(BFr)	59.0965	+0.4079	537 - 392	59.1940	58.5470	58.9036	3.9	58.5369	3.8	57.2843	3.1	103.7
Denmark	(DKr)	10.9008	+0.0797	949 - 067	10.9067	10.8127	10.8771	2.6	10.8292	2.6	10.6759	2.1	107.5
Finland	(FM)	8.7208	+0.058	158 - 257	8.7300	8.6600	8.6924	3.9	8.6375	3.8	8.4529	3.1	82.8
France	(FFr)	9.6018	+0.0614	995 - 041	9.6161	9.5322	9.5709	3.9	9.5115	3.8	9.3064	3.1	107.4
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 28		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8250	+0.0674	233 - 266	11.8690	11.7689	11.8065	1.9	11.774	1.7	11.6635	1.4	104.1
Belgium	(BFr)	34.6800	+0.208	600 - 000	34.8020	34.4110	34.6257	1.9	34.5275	1.8	34.1975	1.4	103.9
Denmark	(DKr)	6.3970	+0.041	945 - 995	6.4125	6.3574	6.394	0.6	6.3875	0.6	6.3733	0.4	106.9
Finland	(FM)	5.1177	+0.0294	155 - 198	5.1354	5.0920	5.1098	1.9	5.0948	1.8	5.0462	1.4	82.7
France	(FFr)	5.6347	+0.0809	342 - 352	5.6573	5.6098	5.6261	1.8	5.6103	1.7	5.5557	1.4	107.3
Germany	(DM)	1.6806	+0.0095	804 - 808	1.6872	1.6719	1.678	1.9	1.6733	1.7	1.6568	1.4	105.7
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

[illegible]

EC stands firm on agricultural price cuts

By Michael Smith in Brussels

The European Commission said yesterday it would stick to its plan for cutting support prices for agricultural products after an analysis of agricultural markets concluded that the outlook remained positive.

It said its report on prospects for cereals, meat and dairy markets until 2005 underlined the case for changing the common agricultural policy. "There is no basis for changing our position," it said.

Franz Fischler, farm commissioner, would not change his proposals for cutting guaranteed prices for beef, cereals and dairy products by 30, 20 and 15 per cent respectively.

The proposed changes to the common agricultural policy are part of the Agenda 2000 reform package put forward by the Commission.

There had been speculation that world financial problems and weak agricultural markets might prompt the Commission to revise its proposals, now being considered by European Union state countries. Russia is the EU's biggest market for farm exports.

Information for yesterday's report was collated before the Russian financial crisis. A Commission official conceded that problems in the Russian market could affect negotiations between EU member states on Agenda 2000 but added: "I want to counter the idea that the Commission will change its proposals."

He said Russia's problems could lead to calls for deeper reform because the EU would need to be more competitive.

The report said the outlook for agricultural markets over the next decade was "fairly positive" when compared with the situation in the 1980s and 1990s. "There is a broad consensus that the medium-term outlook for agricultural products will be characterised by strong growth in demand that will generate a sustained expansion in trade," it said.

"The expansion of demand from non-OECD regions, in particular in Asia and Latin America, will constitute the main driving force behind these favourable prospects."

The report makes assumptions on the basis of existing, unreformed agricultural policy. It predicts total EU cereals production rising from just over 200m to 213.2m tonnes by 2005. If 17.5 per cent of land was taken out of production, the EU's intervention stocks – bought from farms under the guaranteed prices system – would grow from about 14m to more than 50m tonnes.

Beef output is seen as dropping before rising again after 2000. Assuming exports at the EU's limit under world trade restraints, internal stocks, now some 600,000 tonnes, would jump to 1.5m tonnes by 2005.

The report forecasts a slight decrease in milk production and an increase in yields per cow. The dairy cow herd is predicted to drop from 21.7m in 1997 to 18.6m in 2005, assuming no change in milk quotas.

Dirk Ahner, director of economic analysis in the Commission's agriculture directorate, said strong prospects for cheese exports would be constrained by commitments to the World Trade Organisation.

Mining to restart at Los Frailes

By Kenneth Gooding, Mining Correspondent

Boliden, the Canadian-Swedish mining company, said yesterday 95 per cent of the material that escaped from a waste dam at its Los Frailes lead-zinc mine near Seville in Spain had been cleaned up and mining would restart next month.

Production of zinc concentrate, an intermediate material, would start in December, seven months after the dam burst and released 5m cubic metres of toxic sludge into rivers flowing through Coto Donana, Europe's biggest national park and one of the region's most important tourist attractions.

Boliden also responded to a report into the incident by Eptisa, Servicios de Ingeneria, which is investigating the causes. Eptisa said a slippage of bedrock 14 metres below the original surface, resulting from pressures from the dam and the waste deposited in it, had caused the collapse.

Boliden said that neither a 1977 dam construction study nor a dam stability study in 1996 had provided an adequate prediction of the behaviour of the bedrock.

The dam was constructed to hold 32.6m cubic metres of waste and to reach a height of 32 metres, Boliden said, and at the time of the collapse it contained 15m cubic metres of waste and reached a height of 28 metres.

Boliden has reserved $34m towards the cost of the clean-up but has accepted no liability. Legal proceedings are under way to determine responsibility and liability for damages.

Los Frailes was scheduled to produce about 125,000 tonnes of zinc, roughly 1.6 per cent of global output, and 47,000 tonnes of lead, not quite 1 per cent of the world total, this year.

Caltex may lose oil production in Indonesia

By Sander Thoenes in Jakarta

Chevron and Texaco, which operate in Indonesia as Caltex, the country's largest oil producer, risk losing 10 per cent of production capacity if government officials opt this week to hand a block of fields over to Pertamina, the state oil and gas company.

An official taskforce is expected to recommend whether to extend a 25-year lease for the Coastal Plains Pakanbaru block, held by Caltex, which expires in 2001. Pertamina has been lobbying hard for the field, which produces 77,800 barrels a day. Members of the taskforce indicated this month that they supported Pertamina.

Although Pertamina has yet to make a claim for any other lease coming up for renewal, the case of Caltex is being watched by oil executives as a test of the new government's attitude towards foreign investors.

Pertamina has long been content to farm out fields to foreign contractors but it is bracing itself for a draft law that would curtail its powers, turning it from a de facto ministry into a company by transferring its production sharing contracts to the government.

The company would also lose its monopoly on distribution, making room for foreign investors, Caltex included, which have been eager to set up refineries and gas stations.

This has led Pertamina to look at increasing its own production but Priyambodo Mulyosudirjo, director for exploration and development, said it would expand onshore rather than into costly and technologically challenging offshore fields. "This will make Pertamina stronger," he said.

Caltex said it has already gained experience in tertiary enhanced oil recovery technology, including processing of water pumped into the wells, needed to extract some 423m barrels of oil still in the fields. Much is too viscous or trapped in rocks, but Caltex believes it can get oil flowing by injecting lignin, a by-product from nearby pulp mills, and boost recovery by more than 35 per cent.

"They can't just copy that technology, it's ours," it said. "It will cost Pertamina lots of money to treat the water, for instance."

Mr Priyambodo concedes Pertamina has not used such technology but says Caltex has yet to apply it commercially. It said it has sponsored its own studies and could finance research and application, estimated at $1.3bn, from cash flow.

Caltex has offered to reduce its take from the field from 15 per cent to 10 per cent and to adjust bonuses.

The government may offer the field for open tender or persuade Caltex and Pertamina to improve co-operation but there is bitterness among Pertamina directors over the lack of technology transferred by Caltex since it first pumped oil at the field in 1973, although it did train Pertamina staff in enhanced oil recovery.

The Caltex case will test the attitude to foreigners Panos Pictures

Hurricane shuts oil and gas plants

MARKETS REPORT

By Paul Solman

Oil and gas producers in the US said they had shut plants and evacuated employees in the Gulf of Mexico region yesterday as Hurricane Georges hit the Louisiana coastline.

The region provides about 14m cubic feet of gas and 1m barrels of oil a day – about a quarter and a sixth respectively of US gas and oil production.

However, it failed to blow through the oil markets, and the November contract for Brent blend on London's International Petroleum Exchange was $14.32 a barrel in late trading, 11 cents below Friday's close.

Among metals producers, Alcan Aluminium said it had shut its electrical cable plant in Bay St Louis, Missouri, as a precaution against damage and injuries.

On the London Metal Exchange, base metals traded quietly, with three-month copper ending at $1,663 a tonne, $2.50 below Friday's close. Nickel finished $50 lower at $4,090 a tonne, while zinc slipped $7 to $993 a tonne.

"Although supply-side responses provide a 'safety net' for the copper price at around the current level, no such mechanism exists to support the aluminium price anywhere near to current levels," Credit Suisse First Boston said yesterday in its latest Metals Watch report.

CSFB expects strategic buying of aluminium at about the current price level by big aluminium users such as US carmakers, which could help prices. Aluminium closed yesterday at $1,345.5 a tonne, down $2.50.

Gold fell back from Friday's four-month high. It was "fixed" at $292.25 an ounce in London compared with the morning fix of $293.50 and Friday afternoon's level of $296.10.

Coffee futures rose on the London International Financial Futures and Options Exchange, the benchmark November contract ending up $45 at $1,682 a tonne on volume of 4,347 lots.

Global coffee output is estimated at 104.7m bags for 1998-99 against 93.7m for 1997-98, according to the International Coffee Organisation. Brazil, the world's largest producer, is expected to produce 33.9m bags.

Problem year for African tobacco

By Paul Solman

African tobacco growers are facing a difficult year after a sharp drop in prices. The International Tobacco Growers' Association said prices across the continent have fallen up to 40 per cent this year compared with 1997.

"Growers across Africa are undoubtedly suffering considerable hardship because of the low prices," said David Walder, chief executive of the ITGA. "For some of them, producing the tobacco is no longer proving economic."

African tobacco growers had been expecting a small fall in prices this year, but the prices had fluctuated much more than usual, he added.

In Zimbabwe, Africa's largest tobacco exporter, prices were 40 per cent lower at the start of the year, and are now 33 per cent down, according to the ITGA. Prices in Zambia are 36 per cent lower, while Malawi prices are down 19 per cent.

In Tanzania, where prices are 15 per cent lower than last year, the government has removed the tobacco export tax in an effort to help local farmers.

"Tanzanian production is on a smaller scale than other countries in the region, so prices tend to be lower. But the growers there say they simply can't survive on the prices they are getting," Mr Walder said.

Zimbabwe produced 165,000 tonnes of tobacco in 1997, of which 97 per cent was exported. Malawi, the continent's second biggest tobacco grower, produced 153,000 tonnes.

China is the largest tobacco grower, producing 40 per cent of world output though most of it is consumed domestically. Other big producers include India and Brazil.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1313-14	1344.5-45.5
Previous	[illegible]	[illegible]

■ ALUMINIUM ALLOY ($ per tonne) [illegible]

■ LEAD ($ per tonne) [illegible]

■ NICKEL ($ per tonne) [illegible]

■ TIN ($ per tonne) [illegible]

■ ZINC, special high grade ($ per tonne) [illegible]

■ COPPER, grade A ($ per tonne) [illegible]

■ LME AM Official £/$ rate [illegible]

■ HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	295.3	+1.7	–	–	–	2
Oct	295.3	+1.8	295.5	291.4	842	4,274
Dec	298.0	+1.8	298.4	294.0	57,924	81,190

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.) [illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) [illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) [illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel) [illegible]

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS IPE [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	73.35	–	73.70	73.25	99	2,582
Jan	75.25	–	75.50	75.15	73	2,479
Mar	77.25	+0.10	77.40	77.15	148	1,739

■ WHEAT CBT [illegible]

■ MAIZE CBT [illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne) [illegible]

■ SOYABEANS CBT [illegible]

■ SOYABEAN OIL CBT [illegible]

■ SOYABEAN MEAL CBT [illegible]

■ POTATOES LIFFE [illegible]

■ FREIGHT (BIFFEX) LIFFE [illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	975	+9	–	–	–	7
Dec	1009	+7	1013	1003	1,067	66,423
Mar	1037	+7	1040	1031	271	38,334

■ COCOA CSCE (10 tonnes; $/tonnes) [illegible]

■ COCOA (ICCO) [illegible]

■ COFFEE LIFFE [illegible]

■ COFFEE 'C' CSCE [illegible]

■ COFFEE (ICO) [illegible]

■ WHITE SUGAR LIFFE [illegible]

■ SUGAR '11' CSCE [illegible]

■ COTTON NYCE [illegible]

■ ORANGE JUICE NYCE [illegible]

PULP AND PAPER

■ PULPEX OMLX [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs) [illegible]

■ LEAN HOGS CME [illegible]

■ PORK BELLIES CME [illegible]

LONDON TRADED OPTIONS [illegible]

LONDON SPOT MARKETS [illegible]

INDICES [illegible]

Minor Metals [illegible]

JOTTER PAD

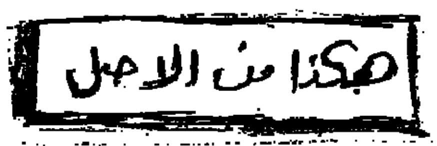
CROSSWORD

No.9,799 Set by HIGHLANDER

ACROSS
1 Small earthquake starts to rock backward Italian city (5)
4 75% support weight classification for stones – but it's a gamble (8)
10 Literature: try right away something new (7)
11 The most closely related are in a cosy situation (7)
12 New, big, hard grub (4)
13 Intruder is very French, a footballer possibly (10)
15 Stop: don't start fighting; take a holiday (5)
16 is unable to add a word of thanks for musical version (7)
20 So-called drug increase? Put one's foot down (8,2)
21 Look through highbrow selection made by librarian – it's in there (6)
24 Not performing well playing the green, which is disconcerting (3-7)
26 Oral link with Asian language (4)
28 About to wake up from drinking bout (7)
29 Write about the air and sea god (7)
30 Naomi's daughter-in-law not so cruel? (8)
31 At this point heartlessly state an unorthodox view (6)

DOWN
1 Carpenter's tool – wasn't without one on the way up (5,3)
2 Listen in on conversation and hear first lady's on a drip (9)
3 So raised a third of London's capital (4)
5 Main case involved one suffering from memory loss (8)
6 Cleaner reacts badly to symbols (10)
7 Dances in some sections of film (5)
8 Misplaced trust takes hold of old teachers (6)
9 Dry out in small house or hotel offering special treatment (6)
14 Normally while reading about upper class (2,3,5)
17 Drag head of Norwegian royal family to a place in London (4,5)
18 Starts to build up try, combining with lock and prop (8)
19 Oval ball in a manner of speaking (8)
22 Agree musically with Coward (6)
23 Article about a girl (5)
25 Wood Street Primary (5)
27 It has a point for fencers and three points about parking sign (4)

Solution to Saturday's prize puzzle on Saturday October 10.
Solution to yesterday's prize puzzle on Monday October 12.



FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

Aberdeen Prolific International Fund Plc

Henderson Crosthwaite Investment Co

Herald Investment Fund Plc

Lazard Investment Funds Ltd

Baring International Fd Mgrs (Ireland) Ltd

Baring Mutual (Ireland) Ltd

John Hancock Funds Plc

Hansol Korea Venture Fund

Haussmann International Fund Plc (u)

Invesco Asset Management (Ireland) Ltd

Short-Term Investments Co - Contd.

Singer & Friedlander Closed Funds Plc

Skandia Select Fund Plc

Societe Generale Group

State Street Global Advisors Limited

Perpetual Fund Management - Contd.

Prudential Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

GUERNSEY (REGULATED)(**)

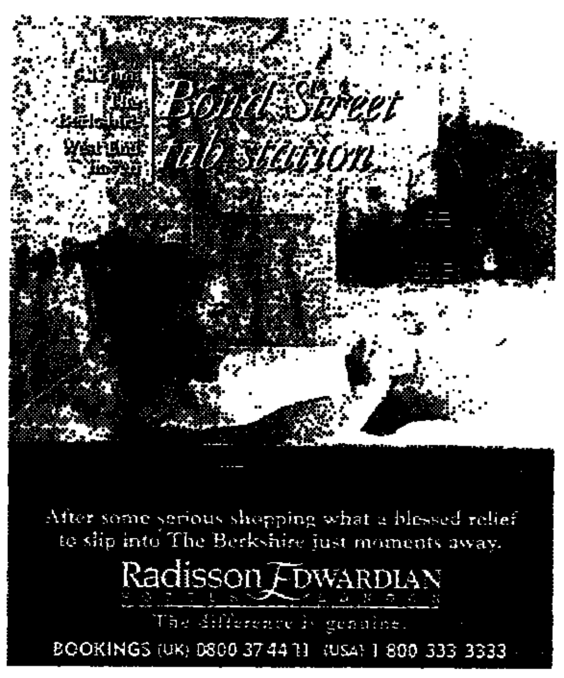
CM Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

City of London Investment Mgmt Co., Ltd

CoreStates Fund Management (Ireland) Ltd

DWS International Fund



Morgan Grenfell Investment Funds Ltd - Contd.

Daiwa Europe Fund Mgrs Ireland Ltd

IRELAND (REGULATED)(**)

IRELAND (FSA RECOGNISED)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (FSA RECOGNISED)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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ABN AMRO Funds - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (z)

American Phoenix Investment Portfolios (z)

Bank Von Ernst & Cie AG

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

Capital International

Chase Manhattan Vista Funds

Commercial Union Luxembourg Sa (z)

Credit Agricole Indosuez

DB Investment Management SA

Danske Fund (z)

Dresdner RCM Global Investors (UK) Ltd

Dresdner RCM Japanese Warrant Fund

Dresdner RCM Select Fund (z)

Dresdnerbank Asset Mgmt SA (z)

EFG Private Asset Management Ltd

E.T. Investment Management Ltd

Fidelity Funds (z)

Fleming Group (z)

Foreign & Colonial Emerging Markets Ltd (z)

Foreign & Colonial Portfolios Fd Sicav(z)

Frontrunner I (z)

GT Global

HSBC Investment Funds Luxembourg SA (z)

Henderson Management SA (z)

INVESCO International Limited (z)

JP Morgan

Liberty Newport World Portfolio (z)

Lloyds Bank Luxembourg

Lombard Odier Invest (z)

Mercury Asset Management

Mercury Asset Management - Contd.

Morgan Stanley Sicav

Morgan Global Umbrella Fund

Morgan Global Bond Fund (z)

PIMCOA Worldwide Inv Portfolio Sicav (z)

Premier International Investments SICAV

Rothschild Asset Management

S-E-Banken Luxembourg SA

Saracin Investmentfonds SICAV (z)

Schroder International Selection Fd (z)

Scottish Equitable Intl Fund SICAV (z)

Sun Life Global Management Ltd (z)

Templeton Global Strategy Funds (z)

Thornton Selection Fund SICAV

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Aetna International Umbrella Fund (z)

Asian Master Fund (z) (z)

Banque Colbert S.A.

Bergen Fund Sicav

Credit Agricole Indosuez

Credit Lyonnais Suisse (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

Credit Suisse Asset Mgmt Funds - Contd.

Daiwa Japan Small Equity Fd (z)

Dresdner RCM European Bond Fund

Egypt Trust

Emerging Markets Brewery Fund SICAV

Fidelity Investment (CI) Ltd

The First Korea Smaller Companies Fund

Fleming Group

Foreign & Colonial Emerging Markets Ltd

Fred Alger Management Inc

Global Funds Management S.A. (z)

Goldman Sachs

HSBC NAPT Luxembourg SA

HYPO Capital Mgmt Invest Luxembourg SA

Henderson Independent Fund

INVESCO International Limited

Investmentfonds Allianz SA

JP Morgan

Lazard Holdings

Lloyds Bank Luxembourg

MFS American Funds

Merrill Lynch Asset Management

Merrill Lynch Asset Management - Contd.

Moneyway Trust SICAV

Nikko Bank (Luxembourg) S.A.

Nomura Asian Infrastructure Fd SICAV

Pan-Holding SA

Picket Group

Regent Korea Emerging Growth Fund

Rosenberg Management Co SA (z)

SCITECH SA

Saloman Global Opportunities Funds

Sogen Fund SICAV

State Street Luxembourg SA

State Street Research & Management Co

TCW Luxembourg Funds

Templeton Emerging Asia

Templeton Russian & East European Debt Fd

UBS AG

UBS AG - Contd.

Dolco Financial Services SA Lux

Union Bancaire Privee

VLS Finance Ltd India

Vesper Consell

WP Stewart Global Growth Fund

World Invest SICAV

World Trust Fund

OFFSHORE INSURANCES

Aberdeen International Ltd

Albany International Assurance Ltd

Allied Dunbar International Assce Ltd (z)

CMI Ins Co Ltd

Equitable Life (International)

Friends Provident International

General Accident Assurance Ltd

Irish Life International Ltd

Isle of Man Assurance Ltd

Lanrow International Group

Midland Life International Ltd

Old Mutual Guernsey

Old Mutual Hong Kong

Old Mutual International (Ireland) Ltd

Old Mutual International (Isle of Man) Ltd

Professional Investment Consultants

حكذا من الاجل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal & Sun Alliance Intl Financial Srvs

Royal Skandia Life Assurance Ltd (z)

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£70⅞	-⅞	*£91⅝	£6¼	-	7.7	4.8
Barlow R	‡	627	-⅜	£74	£1⅝	-	5.7	6.8
Investec Group		£17⅞	+⅜	£28⅜	£12⅜	-	-	-
Investec Hldgs		£17¼	+⅜	£28½	£12⅜	-	-	-
SA Breweries R		£18⅜	+1⅛	£28⅜	£7⅝	-	3.3	15.2
Standard Bank R		£20⅜	—	£28⅜	£22⅜	-	1.5	21.5
Tiger Oats	†	480	—	1087	375	-	4.0	8.9
Tongaat-Hulett R		365½	-32	783½	335½	-	4.1	9.3

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		£5700bid	—	£61200	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An International service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

US rate cut hopes counter hedge fund concerns

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

Concerns that the near-failure last week of Long Term Capital Management, the US hedge fund, might be only the first of a series of disasters, had a restraining effect on London's stock market yesterday.

Such fears countered the widespread optimism in global markets that the US Federal Reserve's open market committee will opt for a reduction in interest rates after today's meeting in Washington. An announcement from the Fed is expected shortly after 7pm London time tonight.

Dealers were insistent that a cut of at least 25 basis points had already been factored into the market, while some said they were hoping for 50 basis points.

But a firm opening by Wall Street, which followed up last Friday's 26-point gain on the Dow Jones Industrial Average with a good initial showing, rescued London and other European markets.

The Dow shot up more than 125 points shortly after the US opening, driven by a big rally in shares in the banking sector, which responded to the prospect of a US rate cut.

The FTSE 100 index ended an erratic session 32.5 higher at 5,093.5. Blue chips had kicked off the day in good heart, with some keen buying stimulated by good gains in the two main Asian markets, Tokyo and Hong Kong, which closed 1 and 3 per cent higher respectively, despite news of the failure of Japan Leasing Corporation, Japan's biggest-ever bankruptcy.

The initial optimism proved short-lived, with nervousness about hedge funds' vulnerability driving investors away from the market and prompting a general slide in share prices until Wall Street's big gains saw the buyers return.

Marketmakers, caught out many times in the recent past by "false dawns", remained highly sceptical of the market's ability to maintain a positive stance for any length of time.

"We've finished steadier today but underneath the market really doesn't feel that good," said one marketmaker.

"You always feel that we'll run into another wobble sooner rather than later because the fundamental problems, plus the hedge fund trouble and bank exposure to that, haven't gone away," he said.

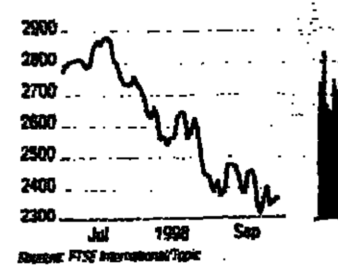
The market's second liners matched the performance of the leaders. The FTSE 250 index finished the session 24.1 ahead at 4,553.0, helped along by a mostly positive batch of corporate news, although the midcap arena was not without its casualties.

The smallcap stocks proved the market's most vulnerable area, with the stock prices of two minnows, Car Group and Stentor, losing more than half of their respective values - the latter was eventually suspended. The FTSE SmallCap index settled 8.9 points lower at 2,002.6.

Turnover in the equity market topped the 1bn mark, eventually reaching 1.09bn shares, beefed up by a number of share buy-back operations, notably in Anglian Water.

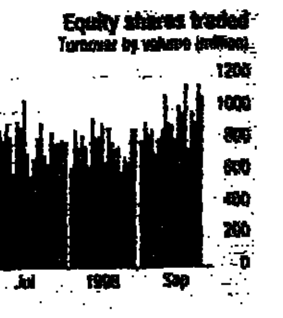
Activity in Anglian alone accounted for 265m shares, or about a quarter of total turnover in the market.

FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5093.5	+32.5	FT 30	3077.4	+18.3
FTSE 250	4553.0	+24.1	FTSE Non-Fins p/e	19.89	19.84
FTSE 350	2432.3	+15.1	FTSE 100 Fut Dec	5170.0	+38.0
FTSE All-Share	2357.15	+13.30	10 yr Gilt yield	5.04	5.11
FTSE All-Share yield	3.33	3.35	Long gilt/equity yld ratio	1.47	1.49

Best performing sectors

1 Diversified Industrials .... +3.5
2 Life Assurance .... +3.0
3 Alcoholic Beverages .... +2.9
4 Extractive Industries .... +2.9
5 Leisure & Hotels .... +2.0

Worst performing sectors

1 Telecommunications .... -1.4
2 Gas Distributors .... -1.0
3 Distributors .... -1.0
4 Pharmaceuticals .... -0.8
5 Engineering, Vehicles .... -0.5

BT slips in heavy turnover

COMPANIES REPORT
By Peter John, Martin Brice and Paul Clark

British Telecom, one of London's most liquid stocks, came under pressure because of regulatory concerns.

An article in a Sunday newspaper said David Edmonds, the new industry watchdog, was looking at ways of further diluting BT's market dominance.

There was also speculation that European investors may be tempted to pocket some BT gains in readiness for the next tranche of the France Telecom privatisation.

Fund managers said pre-placement of France Telecom started yesterday and the details would be announced by the end of the week. The placing is expected to come in the form of a convertible bond issue.

UK fund managers may have less leeway than their continental peers to shift funds from the UK. But one analyst said there might be some temptation to lighten holdings anyway because of the stock's comparatively high rating.

The shares ended 9 lower at 787p with turnover of 15m heavier than normal, making it one of the busiest stocks in the market in value terms.

Comments by the new regulator suggesting the mobile phone industry could also come under pressure, saw Vodafone fall 27 to 698p and Orange 14 to 567p. Securicor, which has a big stake in Cellnet, fell 13 to 367p.

There was some much-needed good news for Booker shareholders as the stock responded positively to the news that the company had recruited Stuart Rose, former chief executive of retailing group Argos, as chief executive.

There was more good news with the appointment of John Napier, formerly managing director of Hays, as non-executive chairman.

The shares, which have retreated sharply this year, rallied strongly to close 15 higher at 106½p.

One of the attractions for Booker may have been the experience Mr Rose gained during the fight for survival that Argos put up during the takeover by GUS.

A spurt of share buying by directors helped sentiment in Business Post. The stock had fallen from 958p earlier this year to a 52-week low of 175p. Yesterday it was the best performing share in the FTSE 250, climbing more than 23 per cent or 52½ to 277½p.

The directors' share buying was led by founder and chief executive Peter Kane, who spent about £500,000 buying 225,000 shares at 225p each. Four other directors bought an additional 20,000 shares at the same price.

Close Bros were sold down 55 to 486p after a cautious statement. Full-year results from the specialist merchant banking group were accompanied by a warning that trading in the current year could be challenging.

Close warned that while it had achieved strong growth in 1998, the current year would be more challenging because of the downturn in global financial markets.

Hyder firmed 2 to 915p helped by Warburg Dillon Read which increased its recommendation on the stock to "buy" from "add". The upgrade follows a period of underperformance.

RJB Mining, the coal producer, added 7½ at 108½p with help from press reports that the company is close to signing long-term contracts with PowerGen.

Leading media stocks put on a strong performance as selected investors appreciated the sector's lowly rating. Media stocks are traditionally the first to fall foul of an economic downturn but they are strong cash generators and expected to trade at a premium to the market.

However, Panmure Gordon has the sector trading on only 16.2 times current year earnings compared with the market (excluding oils and financials) trading on 17.6 times.

EMI gained 22 to 375p and Pearson, which owns the Financial Times, added 27 at £11.05. United News & Media improved 25 to 563p.

Sedgwick slid 11½ to 198½p after the US trade commission threw a spanner into the insurance broker's proposed takeover by Marsh & McLennan of the US. In August, Marsh offered 225p a share for Sedgwick but the trade commission has asked for additional information about the proposed deal.

Takeover target

Fairey Group was up 12½ at 292½p after weekend press reports that it was set to be a target for takeover in the long-awaited consolidation of the European defence industry.

Cobham was up 6 per cent or 33½ to 598½p ahead of interim figures due out today. There has been some concern over the impact on the company of a decline in demand from printed circuit board makers. Nevertheless, an advance of 13 per cent is expected.

Speculation sparked by press reports that Aston Villa would be at the receiving end of a bid from Carlton powered the shares 47½ to 707½p. Carlton, which yesterday announced the launch of a new TV service called ONdigital in November, was up 12 at 400p.

Hopes that the bid for TLG would end with a higher offer from Cooper of the US evaporated as it walked away, leaving Wassall victorious.

The stock had stood at a premium to the 175p bid from Wassall in the hope that Coopers would increase its 160p bid.

The cash and paper offer by Henlys for chassis maker Dennis was last night worth 461p a share. Dennis was static at 460p while Henlys was unchanged at 444p. Mayflower has offered 450p in cash for each Dennis share - the screens showed that the bid price from brokers was 456p for Dennis shares.

Chiroscience firmed 1½ to 247½p ahead of a research and development presentation to analysts today.

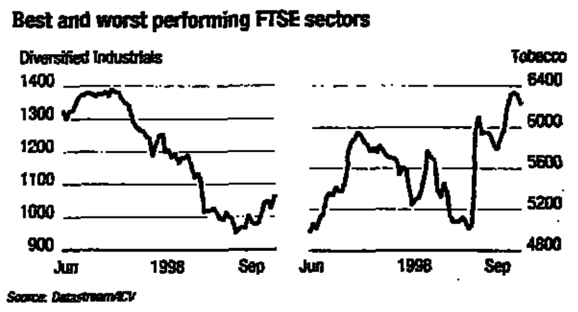
Shire Pharmaceuticals recovered 55 to 402½p in response to positive comments by the chief executive at a healthcare conference hosted by Bear Stearns, the US broker, on Friday.

The company was reassuring about production of Adderall, its hyperactivity treatment for children. Production was affected in August by an explosion at Shire's sole supplier.

Oasis Stores, the women's fashion retailer, unveiled results significantly better than the same period in 1997.

The figures also slightly exceeded brokers' expectations in spite of being released against a background of increasing gloom in the retail sector. The shares closed up 8½ at 160p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Sep 28	Sep 25	Sep 24	Sep 23	Sep 22	Yr ago	*High	*Low
FT 30	3077.4	3059.1	3112.3	3153.8	3095.4	3363.5	3864.0	3035.6
Ord. div. yield	3.45	3.47	3.40	3.36	3.42	3.35	4.22	2.72
P/E ratio net	19.45	19.33	19.75	19.96	19.58	21.54	25.41	15.80
P/E ratio nil	19.27	19.25	19.67	19.88	19.50	21.84	25.19	15.71

FT 30 since compilation: High 3920.3 11/05/98; low 49.4 26/06/40 Base Date 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3059.1	3069.2	3052.4	3039.9	3046.2	3047.5	3053.9	3073.9	3090.1	3035.6

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STOCK MARKET TRADING DATA

	Sep 28	Sep 25	Sep 24	Sep 23	Sep 22	Yr ago
SEAQ bargains	63,038	69,022	57,121	54,359	55,506	57,404
Equity turnover (£m)†	-	-	3724.7	3166.9	2727.1	3430.1
Equity bargains†	-	-	48,429	43,321	41,414	56,407
Shares traded (mil)†	-	-	994.8	807.8	771.1	1031.8
Total market bargains‡	-	-	57,451	58,226	53,711	na
Total turnover (£m)‡	-	-	4936.2	4511.0	4055.5	na
Total shs traded (mil)‡	*1092.0	848.8	1257.7	1195.1	1062.7	na
Tradepoint turnover (£m)	16.6	21.0	27.6	30.6	14.1	8.4
Tradepoint shs traded(m)	5.9	5.7	12.8	9.8	6.2	3.7

†Excluding intra-market and overseas turnover. ‡Including Order turnover. *UK only total at 6pm. ± UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	702	Total Highs	53	Total contracts	(u)
Total Falls	796	Total Lows	256	Calls	(u)
Same	1,450			Puts	(u)

Sep 28 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est vol	Open int
Dec	5230.0	5170.0	+38.0	5253.0	5079.0	18968	206408
Mar	-	5213.0	+38.0	-	-	0	1943

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est vol	Open int
Dec	4580.0	4590.0	+23.0	4580.0	4580.0	16	7145

■ FTSE 100 INDEX OPTION (LIFFE) (*5096) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

* Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1998 High	1998 Low	Stock	Close price p	Net +/-	Div.	Grs cov.	P/E yld	net
[illegible]											
§130	F.P.	1183	129½	119½	Kiln	121		W-	-	-	14.4
-	F.P.	369.5	98	87½	MEPC Non Com Pf B	88		-	-	-	-
-	F.P.	4.21	6	4	†Mano River (UO	6		-	-	-	-
-	F.P.	13.9	114½	109½	†Meinor	109½		LN3.6	-	4.1	-
§	F.P.	4.71	18	10	Murray Extra Rtn Cap	13½		-	-	-	-
§100	F.P.	29.3	109	99	Do Inc	107	-½	07.95	-	9.3	-
§	F.P.	24.8	102½	98½	Do Zero Div Prf	100½		-	-	-	-
§32	F.P.	3.89	32½	27½	†Parallel Pictures	27½	-1	-	-	-	-
§65	F.P.	4.08	65½	62½	†Private & Comm Fin	65½		R0.6	-	1.1	15.8
-	F.P.	-	35½	32½	Walker Greenbank B	34		-	-	-	-
§2	F.P.	2.46	2½	2¼	†Winslow	2½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
520	Nil	28/9	4pm	3¼pm	Cammell Laird	3½pm	
10.25	Nil	5/10	3½pm	½pm	Tadpole Tech	½pm	
7	Nil	12/10	0.75pm	0.25pm	Ultima Network	0.25pm	
10	Nil	19/10	1½pm	1¼pm	Wiggins Group	1¼pm	

pm premium.

FTSE GOLD MINES INDEX

	Sep 25	% chg on day	Sep 24	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	1086.82	+4.5	1040.28	1421.44	1.71	-	1536.45	701.58
■ Regional Indices								
Africa (9)	1186.11	+14.3	1037.65	1278.24	3.40	45.42	1525.29	765.63
Australasia (7)	1137.46	+7.4	1059.29	1463.29	3.41	7.98	1609.85	815.93
Americas (11)	1047.77	+0.1	1046.20	1479.57	0.70	45.78	1574.16	647.69

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Sep 28	Day's chge%	Sep 25	Sep 24	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5093.5	+0.6	5061.0	5167.6	5220.3	3.15	2.68	2.00	19.86	121.67	2246.41
FTSE 250	4553.0	+0.5	4528.9	4580.3	4816.1	3.94	3.34	2.08	15.30	112.06	1968.82
FTSE 250 ex Inv Tr	4599.5	+0.6	4572.9	4623.5	4830.5	4.08	3.47	2.14	14.31	116.18	1997.02
FTSE 350	2432.3	+0.6	2417.2	2464.1	2505.6	3.28	2.80	2.01	18.90	58.36	2191.90
FTSE 350 ex Inv Tr	2438.8	+0.6	2423.6	2470.7	2507.9	3.30	2.81	2.03	18.71	58.82	1127.34
FTSE 350 Higher Yield	2356.4	+0.8	2340.3	2371.5	2411.4	4.38	3.71	1.95	14.65	73.29	1820.86
FTSE 350 Lower Yield	2503.5	+0.5	2491.9	2556.5	2602.6	2.11	1.82	2.16	27.43	45.86	1829.87
FTSE SmallCap	2002.59	-0.4	2011.52	2032.78	2324.65	4.09	3.32	1.90	16.11	48.01	1756.14
FTSE SmallCap ex Inv Tr	1989.29	-0.6	2000.96	2021.35	2301.67	4.38	3.56	1.98	14.38	50.56	1763.29
FTSE All-Share	2357.15	+0.6	2343.85	2388.23	2444.60	3.33	2.82	2.01	18.73	56.52	2155.68
FTSE All-Share ex Inv Tr	2366.90	+0.6	2353.48	2398.21	2447.79	3.35	2.84	2.02	18.46	57.20	1113.75

■ FTSE Actuaries Industry Sectors

	Sep 28	Day's chge%	Sep 25	Sep 24	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4138.05	+0.1	4132.85	4125.61	5112.68	3.57	3.20	1.68	20.84	117.88	1924.25
12 Extractive Industries(6)	2691.47	+2.9	2615.56	2658.48	4119.02	5.16	4.77	2.01	12.06	125.24	868.44
15 Oil, Integrated(4)	4758.49	-0.2	4767.51	4744.88	5511.44	3.43	3.05	1.65	22.09	126.64	2274.21
16 Oil Exploration & Prod(12)	2062.68	-0.3	2069.86	2089.47	3811.87	2.62	2.29	0.99	48.26	45.60	1290.15
20 GEN INDUSTRIALS(214)	1557.02	+1.0	1541.28	1568.00	2158.02	4.70	4.14	2.20	12.07	53.00	926.34
21 Construction(38)	1175.82	+0.9	1166.18	1183.77	1388.98	4.33	3.50	2.87	10.06	31.70	1059.86
22 Building Matls & Merchs(26)	1328.78	+1.2	1313.07	1328.68	1832.36	5.58	4.84	2.17	10.61	53.53	735.17
23 Chemicals(22)	1709.35	+1.7	1681.51	1700.96	2728.38	5.69	5.30	1.70	12.88	66.57	884.83
24 Diversified Industrials(7)	1062.91	+3.5	1026.77	1045.98	1551.58	5.44	5.06	2.04	11.28	57.13	673.31
25 Electronic & Elect Equip(26)	2272.53	-0.4	2282.53	2287.54	2204.69	3.35	2.72	1.82	20.42	55.66	1270.25
26 Engineering(62)	1986.93	+1.8	1952.19	2008.61	2977.55	4.81	4.28	2.23	11.62	69.57	1298.47
27 Engineering, Vehicles(11)	2973.47	-0.5	2989.57	3045.64	3765.18	2.99	2.74	3.24	12.87	62.10	1648.07
28 Paper, Pckg & Printing(22)	1371.44	-0.2	1374.21	1397.81	2348.27	6.48	5.89	2.43	7.93	63.65	628.36
30 CONSUMER GOODS(91)	5091.50	-0.1	5095.10	5349.43	4730.14	2.75	2.46	1.89	24.10	102.99	2025.17
32 Alcoholic Beverages(6)	2806.95	+2.9	2727.17	2807.49	3311.92	4.40	4.08	2.18	13.03	68.61	1100.42
33 Food Producers(26)	3303.78	+0.4	3289.77	3376.90	3091.84	3.02	2.58	2.14	19.34	73.16	1611.90
34 Household Goods & Texts(24)	2334.13	....	2333.12	2337.30	3120.71	4.39	3.90	1.90	14.96	62.41	989.38
36 Health Care(13)	2136.67	....	2137.52	2166.94	2254.87	2.42	2.24	2.21	23.30	35.33	1372.60
37 Pharmaceuticals(19)	8948.13	-0.8	9023.53	9357.49	7828.75	1.97	1.84	1.59	39.97	155.31	3221.16
38 Tobacco(3)	6330.43	+0.3	6309.04	6337.07	4380.20	5.51	4.41	1.98	11.58	152.07	1778.44
40 SERVICES(279)	3106.01	+0.3	3095.37	3140.73	2865.40	2.76	2.27	2.06	21.95	57.21	1720.73
41 Distributors(28)	1751.52	-1.0	1769.42	1800.43	2858.24	5.68	4.69	1.99	11.06	67.89	697.77
42 Leisure & Hotels(27)	2751.46	+2.0	2697.66	2740.47	3347.01	3.44	2.88	2.62	13.90	77.00	1570.10
43 Media(40)	3966.56	+1.0	3926.14	4028.29	4277.46	2.63	2.21	2.15	22.13	82.22	1514.01
44 Retailers, Food(13)	2880.31	+0.9	2855.18	2867.47	2615.08	3.17	2.53	2.13	18.56	61.95	1979.05
45 Retailers, General(49)	2028.54	+0.9	2011.41	2015.92	2348.45	3.72	2.99	2.19	15.33	50.44	1248.34
46 Telecommunications(9)	4223.45	-1.4	4282.93	4369.22	2384.14	2.04	1.69	1.48	41.89	47.70	2071.56
47 Breweries, Pubs & Rest.(24)	3154.53	+1.4	3110.00	3109.00	3315.62	3.90	3.13	2.36	13.56	66.01	1620.12
48 Support Services(65)	4217.74	+1.2	4166.36	4244.69	3361.46	1.47	1.24	2.74	30.99	43.76	2789.95
49 Transport(24)	3327.38	+0.8	3301.79	3345.68	3049.33	3.19	2.65	1.89	20.78	72.04	1496.59
60 UTILITIES(21)	4263.90	-0.1	4268.96	4239.02	3182.76	3.80	3.11	1.76	18.66	92.24	2056.32
62 Electricity(8)	4664.36	-0.3	4678.51	4720.22	3624.85	4.31	3.45	1.90	15.26	113.98	2758.68
64 Gas Distribution(2)	3416.45	-1.0	3451.71	3339.34	2414.01	1.98	1.58	‡	‡	26.03	1974.61
68 Water(11)	3696.61	+1.1	3655.03	3619.50	3124.55	4.69	4.04	2.34	11.40	112.14	2313.54
69 NON-FINANCIALS(627)	2443.30	+0.3	2437.02	2473.19	2439.47	3.19	2.74	1.97	19.89	54.58	2005.99
70 FINANCIALS(106)	4306.02	+1.6	4239.85	4376.33	4955.75	3.82	3.17	2.17	15.08	130.30	2012.09
71 Banks, Retail(12)	5951.12	+1.5	5860.46	6066.37	7696.43	4.29	3.43	2.12	13.78	197.63	2107.48
73 Insurance(16)	2034.19	+0.9	2016.81	2099.58	2054.72	3.45	3.26	2.23	16.24	74.19	1702.65
74 Life Assurance(7)	7128.54	+3.0	6918.42	7094.06	5391.17	2.69	2.32	2.63	17.69	144.23	3201.21
77 Other Financial(25)	3159.20	+1.1	3123.82	3252.01	3431.34	3.42	2.82	2.53	14.47	93.34	1942.33
79 Property(45)	1856.45	+0.1	1853.80	1857.27	2092.83	3.59	3.02	1.62	21.47	39.69	1228.09
80 INVESTMENT TRUSTS(116)	3130.26	+0.5	3115.98	3166.67	3580.24	2.60	2.11	1.17	40.93	53.91	1147.13
89 FTSE All-Share(849)	2357.15	+0.6	2343.85	2388.23	2444.60	3.33	2.82	2.01	18.73	56.52	2155.68
105 FTSE All-Share ex Inv Tr(733)	2366.90	+0.6	2353.48	2398.21	2447.79	3.35	2.84	2.02	18.46	57.20	1113.75
Information Technology	1431.37	+1.4	1411.14	1428.68	-	0.65	0.52	4.08	47.23	6.04	1437.28
FTSE Fledgling	1131.13	-0.3	1134.94	1143.55	1282.92	3.91	3.17	1.40	22.91	27.63	1264.86
FTSE Fledgling ex Inv Tr	1155.32	-0.4	1160.32	1168.04	1284.89	4.23	3.43	1.48	19.99	31.00	1238.36
FTSE AIM	845.5	-0.8	852.4	859.1	1019.4	1.34	1.07	0.31	80.00†	7.81	794.03

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5061.0	5068.7	5040.4	5036.1	5053.5	5082.4	5062.8	5083.7	5097.3	5022.0
FTSE 250	4530.7	4536.7	4537.1	4535.2	4533.9	4534.9	4541.9	4549.0	4553.8	4531.5
FTSE 350	2417.4	2421.0	2409.8	2407.9	2414.7	2418.3	2419.1	2432.0	2433.4	2402.4
FTSE SmallCap	2012.78	2010.41	2007.62	2005.41	2003.65	2003.05	2002.77	2002.34	2012.82	2002.03
FTSE All-Share	2344.08	2347.23	2336.80	2334.93	2341.06	2344.34	2345.07	2358.87	2358.17	2330.05

Time of FTSE 100 Day's high: 16:03:30 Day's low: 10:42:00 FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4990.3 (21/09/98)
Time of FTSE All-Share Day's high: 16:04:00 Day's low: 10:42:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2321.80 (21/09/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	689	434½	+17
AMVESCAP	504	371	-29½
ASDA Group	7,800	170½	+1½
Abbey National	2,200	1032	-8
Alliance & Leicester	836	875	+16
Allied Domecq	2,600	419	+½
[illegible]			

Based on trading volume for the FTSE 100 constituent companies ... † Indicates a FTSE 100 index constituent. ... Rounded. Source: Primark Datastream ... of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 28 / Sch)

BELGIUM/LUXEMBOURG (Sep 28 / Frs)

CZECH REP (Sep 28 / Koruna)

DENMARK (Sep 28 / Kr)

FINLAND (Sep 28 / Mka)

FRANCE (Sep 28 / Frs.)

GERMANY (Sep 28 / Dm.)

GREECE (Sep 28 / Drachma)

ITALY (Sep 28 / Lira)

NETHERLANDS (Sep 28 / Fl.)

NORWAY (Sep 28 / Kroner)

POLAND (Sep 28 / Zloty)

PORTUGAL (Sep 28 / Escudo)

SPAIN (Sep 28 / Pts.)

SWEDEN (Sep 28 / Kronor)

SWITZERLAND (Sep 28 / Fr.)

TURKEY (Sep 28 / Tk Lira)

PACIFIC

JAPAN (Sep 28 / Yen)

HONG KONG (Sep 28 / H.K.$)

INDONESIA (Sep 28 / Rupiah)

MALAYSIA (Sep 25 / MYR)

NEW ZEALAND (Sep 28 / NZ $)

SINGAPORE (Sep 28 / S$)

SOUTH KOREA (Sep 28 / Won)

TAIWAN (Sep 28 / TW $)

THAILAND (Sep 28 / Baht)

AUSTRALIA (Sep 28 / Aust$)

AMERICAS

CANADA

TORONTO (Sep 28 / Can $)
4 pm close

MONTREAL (Sep 28 / Can $)
4 pm close

MEXICO (Sep 28 / Peso)
12:30pm

AFRICA

SOUTH AFRICA (Sep 28 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 25 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY SEPTEMBER 24 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	175.26	-1.0	152.63	149.95	152.26	197.99	-2.0	3.78	177.06	155.14	151.95	154.54	202.00	238.24	163.86	237.59
Austria (22)	182.18	-1.1	158.66	155.89	158.28	158.17	-1.6	2.14	184.30	161.48	158.16	160.85	160.75	253.73	176.88	208.48
Belgium (22)	350.47	-0.9	305.21	299.88	304.48	297.94	-1.4	2.30	353.84	310.03	303.66	308.82	302.27	398.52	234.33	245.19
Brazil (32)	135.09	-3.5	117.64	115.59	117.36	294.48	-3.4	3.13	140.04	122.70	120.18	122.22	304.94	308.59	102.88	272.82
Canada (119)	181.20	-1.0	157.80	155.05	157.42	198.40	-0.9	2.02	183.07	160.36	157.06	159.73	200.22	248.78	167.18	224.22
Denmark (34)	449.50	0.1	391.45	384.61	390.51	388.57	-0.5	1.68	448.91	393.34	385.25	391.80	390.33	537.33	404.61	404.61
Finland (28)	409.41	-1.8	356.54	350.31	355.69	437.19	-2.0	2.10	416.00	364.50	357.00	363.08	446.21	506.46	267.59	319.51
France (78)	276.63	-1.7	240.91	236.70	240.33	243.17	-2.2	2.58	281.47	246.62	241.55	245.66	248.58	345.18	217.58	238.83
Germany (55)	254.92	-1.4	221.92	218.04	221.39	221.39	-1.8	1.44	258.34	226.36	221.70	225.47	225.47	325.61	204.89	231.72
Greece (37)	260.34	-1.6	226.72	222.78	226.18	541.26	-1.6	1.74	264.65	231.89	227.12	230.98	550.27	333.20	243.18	-
Hong Kong, China (66)	233.29	-1.2	203.17	199.62	202.68	232.05	-1.2	6.38	236.19	206.95	202.69	206.14	234.94	518.79	196.64	510.16
Indonesia (26)	21.28	-3.0	18.53	18.21	18.49	141.63	-3.8	4.62	21.93	19.21	18.82	19.14	147.29	156.30	19.04	156.30
Ireland (16)	442.25	-1.1	385.14	378.41	384.21	416.20	-1.6	2.28	447.06	391.72	383.66	390.19	423.13	580.44	359.60	371.16
Italy (54)	138.75	-1.9	120.83	118.72	120.54	171.20	-2.3	1.71	141.44	123.93	121.39	123.45	175.28	184.49	103.30	113.46
Japan (480)	80.18	-2.4	69.82	68.60	69.65	68.60	-2.7	1.15	82.14	71.97	70.49	71.69	70.49	122.22	78.40	122.22
Malaysia (106)	108.82	-0.2	94.77	93.12	94.54	159.26	-0.2	3.59	109.05	95.55	93.58	95.17	159.59	318.52	73.52	301.47
Mexico (29)	1049.55	-1.3	914.02	898.06	911.83	11756.41	0.1	2.32	1063.58	931.91	912.75	928.27	11747.79	1901.98	787.15	1837.48
Netherlands (27)	437.13	-1.0	380.69	374.04	379.77	375.82	-1.5	2.48	441.41	386.77	378.82	385.26	381.40	562.38	380.20	411.38
New Zealand (14)	46.65	-0.8	40.62	39.91	40.52	49.92	-1.3	6.15	47.02	41.20	40.35	41.04	50.59	95.87	45.68	92.39
Norway (37)	209.59	-1.8	182.53	179.34	182.09	210.46	-2.6	2.99	213.36	186.95	183.10	186.22	216.18	374.64	200.58	348.55
Philippines (22)	49.41	-0.6	43.03	42.28	42.92	107.78	-1.0	1.51	49.69	43.53	42.64	43.36	108.82	106.98	42.48	99.28
Portugal (18)	224.47	-2.5	195.49	192.07	195.02	263.20	-3.1	1.24	230.31	201.80	197.65	201.01	271.73	299.38	224.47	-
Singapore (41)	125.08	0.9	108.93	107.03	108.67	97.45	-0.7	3.02	124.00	108.65	106.41	108.22	98.17	304.65	102.45	301.10
South Africa (39)	185.62	0.6	161.65	158.83	161.26	236.32	1.5	3.80	184.46	161.63	158.30	161.00	232.83	346.20	151.55	326.23
Spain (31)	321.74	1.4	280.20	275.30	279.53	345.83	0.9	2.21	317.25	277.97	272.26	276.89	342.83	417.73	236.28	271.22
Sweden (49)	447.13	0.2	389.39	382.59	388.46	521.32	0.1	2.36	446.07	390.85	382.91	389.32	520.77	628.19	430.92	525.01
Switzerland (28)	354.01	-0.2	308.29	302.91	307.56	302.39	-1.2	1.38	354.65	310.92	304.53	309.71	306.19	439.46	301.11	314.30
Thailand (36)	11.79	3.1	10.26	10.09	10.24	17.77	1.1	5.31	11.43	10.01	9.81	9.97	17.59	45.52	8.15	45.25
United Kingdom (209)	335.10	-1.3	291.83	286.73	291.13	291.83	-1.9	3.35	339.61	297.57	291.45	296.41	297.57	401.84	314.38	323.65
USA (622)	426.26	0.1	371.22	364.74	370.33	426.26	0.1	1.54	425.65	372.96	365.29	371.50	425.65	485.88	358.31	381.98
Americas (802)	379.93	0.1	330.87	325.09	330.06	322.06	0.1	1.57	379.66	332.66	325.82	331.37	321.80	497.03	326.79	349.39
Europe (745)	309.98	-1.1	269.95	265.24	269.31	277.96	-1.6	2.43	313.43	274.53	268.98	273.55	282.62	386.24	267.44	285.47
Eurobloc (351)	89.08	-1.2	77.57	76.22	77.39	83.73	-1.7	2.05	90.18	79.02	77.39	78.71	85.17	113.28	85.88	-
Nordic (148)	415.16	-0.3	361.55	355.24	360.68	412.15	-0.6	2.17	416.40	364.85	357.35	363.43	414.73	555.87	398.51	446.50
Pacific Basin (863)	86.03	-2.1	74.92	73.61	74.74	74.59	-2.4	1.91	87.85	76.93	75.40	76.68	76.44	138.20	83.29	138.20
Euro-Pacific (1608)	179.31	-1.4	156.16	153.43	155.78	150.99	-1.9	2.29	181.80	159.29	156.02	158.67	153.86	220.19	172.03	199.67
North America (741)	409.84	0.1	356.91	350.68	356.06	410.63	0.1	1.55	409.42	358.74	351.36	357.34	410.20	469.20	349.05	372.28
Europe Ex. UK (536)	287.32	-1.0	250.22	245.85	249.62	262.92	-1.5	1.96	290.18	254.26	249.02	253.26	266.95	366.32	236.86	258.19
Europe Ex. Eurobloc (394)	85.23	-1.0	74.22	72.93	74.04	82.55	-1.6	2.82	86.06	75.40	73.85	75.11	84.00	103.93	83.13	-
Europe Ex. UK Ex. Eurobloc (165)	84.92	-0.2	73.96	72.67	73.78	80.59	-0.9	1.67	85.09	74.55	73.02	74.26	81.63	109.21	82.62	-
Pacific Ex. Japan (383)	143.38	-0.9	124.66	122.68	124.56	152.19	-1.5	4.77	144.72	126.79	124.18	126.29	154.46	277.07	128.26	277.07
World Ex. Eurobloc (2098)	88.44	-0.4	77.02	75.67	76.83	86.53	-0.6	[illegible]	88.82	[illegible]	76.23	77.52	89.05	103.16	83.83	-
World Ex. US (1827)	179.60	-1.4	156.41	153.68	156.03	155.59	-1.3	2.25	182.06	159.52	156.24	158.90	158.42	221.91	175.30	203.95
World Ex. UK (2240)	251.94	-0.5	219.40	215.57	218.88	220.12	-0.6	1.72	253.12	221.79	217.23	220.92	229.56	298.02	234.24	254.94
World Ex. Japan (1969)	347.78	-0.4	302.87	297.58	302.14	336.75	-0.5	1.97	349.05	305.85	299.56	304.65	338.67	411.23	309.33	331.11
The World Index (2449)	259.04	-0.6	225.59	221.65	225.05	233.99	-0.8	1.93	260.53	228.25	223.56	227.36	236.80	306.56	241.30	260.82

 WITH EFFECT FROM 1/10/98: Malaysia will be removed from The World Index under Ground Rule 2.1.1. Markets closed 28/9/98: Malaysia

Emerging markets: IFC investable indices

Dollar terms

Sept 25 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	745.50	+1.4	-33.2
Brazil	278.76	-2.8	-42.2
Chile	393.96	-0.4	-38.7
Colombia[1]	338.52	+2.5	-59.0
Mexico	451.48	-0.9	-42.7
Peru[2]	138.97	-0.1	-38.1
Venezuela[3]	322.09	+0.3	-64.8
East Asia			
China[4]	28.91	+0.8	-47.7
India[7]	67.87	-0.1	-18.8
Indonesia[8]	10.37	-2.7	-89.2
Korea[9]	23.17	-1.8	-3.6
Malaysia	61.58	-0.2	-32.4
Pakistan[9]	107.57	+1.1	-56.7
Philippines	71.07	-0.8	-37.0
Sri Lanka[10]	94.81	+1.0	-44.3
Taiwan, China[6]	108.94	+0.1	-22.8
Thailand	42.51	+1.0	-9.6
Europe			
Czech Rep	44.00	-1.7	-19.6
Greece	470.18	-1.6	+45.1
Hungary[11]	200.49	-3.9	-38.3
Poland[12]	512.72	-4.6	-14.1
Portugal	248.35	-2.2	+17.7
Russia	15.11	-3.9	-89.8
Slovakia	53.50	+1.8	-46.0
Turkey[14]	145.16	-11.9	-53.5
Mideast/Africa			
Egypt	69.97		-24.9
Israel	108.11	-0.3	-11.2
Jordan	222.69		+5.9
Morocco	183.77	+0.2	+41.1
S Africa[13]	122.22	-0.1	-32.0
Zimbabwe[15]	113.15	+16.6	-55.0
Region			
Composite	161.70	-1.2	-34.3
Latin America	394.84	-0.9	-41.7
Asia	76.41	-0.4	-29.1
EMEA	104.25	-2.1	-29.4
Europe	123.88	-4.3	-34.3
Eastern Europe	46.05	-3.8	-67.2
ME & Africa	54.15	-0.1	-24.3

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

4 pm close September 28

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

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- U -

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- V -

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- W -

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- X - Y - Z -

96	45½	Xtra Corp			13	162	47	46¼	46	
26	22½	Yankee Egy x	1.38	5.5	20	71	25	25	25¼	
52¾	31⅝	York Int x	0.48	1.4	28	1336	34¼	33¼	34	
24	6	Zapata	0.28	2.6	3	839	11	10¼	10¾	
30½	27	Zenith Nat	1.00	3.8	16	38	26	26	26	
8	5	Zenix Inc x	0.78	10.0		77	8	8	8	
14	8⅞	Zweig Fd ♣	1.08	9.8		354	11	10	11	
9	8¼	Zweig Tot x	0.84	9.7		794	8	8	8	

Price data supplied by Exts, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8028.77	8001.99	8154.41	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.19	106.08	105.92	108.19 (25/9)	104.42 (11/5)	106.19 (25/9/98)	54.99 (1/10/81)
Transport	2795.83	2891.24	2904.10	3686.02 (16/4)	2616.75 (4/9)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	299.74	298.72	302.98	302.98 (23/9)	262.66 (9/1)	302.98 (23/9/98)	18.53 (8/7/32)

DJ Ind. Day's high 8127.89 (8227.58) Low 7940.06 (7906.73) (Theoretical)
Day's High 8086.44 (8182.47) Low 7889.99 (7835.82) (Actual)

Standard and Poors	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1044.75	1042.72	1066.09	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1246.57	1242.84	1266.37	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial‡	111.98	112.27	116.90	147.89 (14/7)	102.26 (10/9)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	515.88	518.59	526.95	600.76 (17/7)	480.60 (31/8)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	639.99	642.30	646.06	763.67 (22/4)	565.07 (31/8)	763.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Comp	1743.59	1720.34	1760.27	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	369.02	370.25	376.08	491.41 (21/4)	337.95 (31/8)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Sep 25	Sep 18	Sep 11	Year ago
Dow Jones Ind. Div. Yield	1.88	1.89	1.91	1.68
	Sep 23	Sep 16	Sep 9	Year ago
S & P Ind. Div. yield	1.37	1.40	1.43	1.50
S & P Ind. P/E ratio	31.07	30.41	29.54	25.42

US DATA

MARKET ACTIVITY

NYSE TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

NASDAQ TRADING ACTIVITY

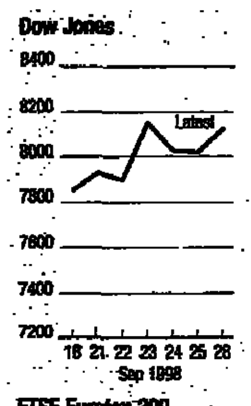
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
DellComp	26,592,400	68⅛	+2
CBT ADR	18,133,080	15⅛	-14⅛
Intel	14,629,600	85⅞	-1⅛
CiscoSys	13,140,400	66⅞	-⅛
Yahoo	10,291,600	127⅞	+6⅞
Micsft	9,866,500	111⅞	-1⅞
WrldCm	9,652,700	49⅞	-⅛
Excite	9,183,600	42	+1⅛
HBO & Co	8,424,700	29⅛	+1
Oracle	7,052,900	28⅛	-⅛

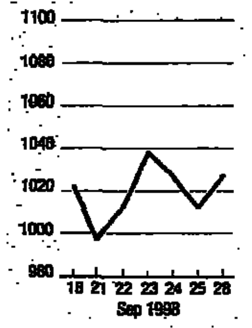
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Roadwks	40⅞	+7⅞	+22.7
Starbucks	41⅛	+5⅞	+15.2
OptCblCp	11⅛	+1⅛	+12.3
Acchth	34⅞	+3⅞	+11.8
Downs			
CBT ADR	15⅛	-13⅛	-47.0
ESC Med	14⅛	-7⅛	-34.1
MicaEnt	15⅛	-4⅛	-21.6
Thrmdynhld	24	-5	-17.2

Dow Jones



FTSE Eurotop 300



JAPAN

TOKYO TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

GERMANY

FRANKFURT TRADING ACTIVITY

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Dt Bk	2,294,983	93.7	+1.6
Dt Tel	616,451	53	
Lufthn	547,704	35.7	-1.3
Veba	486,165	91.75	-4.25
Bayer	435,988	65.6	+1.8
Dalmir	381,813	144.3	-1.9
BASF	314,898	64.2	+1.7
Siemns	313,991	93.2	+2.7
DresBk	274,353	67.4	+1.6
VW	271,876	120	+4.7

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
SGLCar	120	+24	+25
BMW	1155	+98	+9.3
Metro1	68.5	+5.7	+9.1
B'sdorf	97	+6	+6.6
Downs			
McbRkD	480	-55	-10.3
ZnPpap	111	-9	-7.5
Hbmnn	205	-15	-6.8
WellaPf	1305	-65	-4.7

FRANCE

PARIS TRADING ACTIVITY

ACTIVE STOCKS

BIGGEST MOVERS

UK

LONDON TRADING ACTIVITY

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Anglian B	285242000	52	
BTR	28,035,080	107½	+2½
Centrica	17,903,740	121	-3½
Tesco	17,789,520	167½	+¾
Br Telecom	16,900,780	796	-9
Vodafone	16,755,600	725	-27
Sedgwick	13,437,849	210	-11½
Shell	13,002,720	362½	-6¾
Aegis	11,983,730	93¾	-¼
S'tdrd Bch	10,980,180	682	-8½

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Supertrame	171½	+4½	+34.6
Wescol	37	+7	+23.3
Business Post	277½	+52½	+23.3
Shire Pharm	402½	+55	+15.8
Downs			
Car Group	3	-2¾	-55.6
Abacus Rcrt	185	-42½	-18.7
Coffee Rep	122½	-25	-17.9
Worldsec	122½	-25	-17

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	1049.00	1051.00	-	1072.00	1049.00	110,833	382,433
Mar	1069.00	1060.80	-	1080.00	1062.00	435	6,838
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	13670.0	13850.0	+170.0	14120.0	13640.0	28,514	172,708
Mar	13830.0	14030.0	+290.0	14030.0	13830.0	2	6,228

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	3349.0	3330.0	+30.0	3380.5	3240.0	180,738	167,335
Oct	3370.0	3338.5	+29.5	3380.0	3256.0	84,931	86,256
DAX							
Dec	4598.0	4707.0	+83.0	4767.0	4585.0	25,017	66,192
Mar	4669.0	4746.0	+85.5	4756.0	4645.0	99	1,112

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	615.00	615.50	+16.50	615.50	602.00	21,413	165,603
Nov	616.00	616.75	+25.75	616.75	605.50	223	321
SOFFEX							
Dec	6160.0	6170.0	+45.0	6215.0	6007.0	21,520	128,011
Mar	6106.0	6198.0	+243.0	6193.0	6106.0	31	3,101

WORLD MARKETS AT A GLANCE

Country	Index	Sep 28	Sep 25	Sep 24	1998 High	1998 Low	Yield	P/E
Argentina	General	16807.15	16429.79	16187.80	23485.47 23/3	12363.14 10/9	3.97	10.80
Shares higher in early trade on expectations of US rate cut today.								
Australia	All Ordinaries	2591.6	2563.4	2614.9	2881.40 18/4	2458.30 1/9	3.50	18.40
	All Mining	601.8	599.8	592.0	713.30 23/4	489.80 31/8		
Shares recouped some of Friday's sharp fall but sentiment remained cautious ahead of Saturday's federal polls.								
Austria	Credit Aktien	(u)	368.73	(u)	584.94 26/5	386.17 3/9	2.03	11.50
Hungary	Bux	4633.92	4361.36	4605.69	9018.36 23/4	3775.02 21/8	na	na
Shares sharply higher as hopes of US rate cut raised hopes that local market had bottomed after recent losses								
India	BSE Sens.	3206.92	3223.57	3225.38	4280.98 21/4	2862.55 1/9		
	Crisil 500	834.64	836.04	831.55	815.62 21/4	623.02 18/8	na	na
Late profit-taking pulled shares from earlier highs although software and pharmaceuticals still registered good gains.								
Indonesia	Jakarta Comp.	275.00	275.22	282.15	554.10 2/2	256.83 21/8	3.62	10.50
Portugal	BVL 30	4167.57	4208.40	4337.22	6176.89 22/4	3678.27 2/1	2.31	22.70
	PSI 20	9484.31	9576.36	9867.50	14292.88 22/4	9031.84 2/1		
Market weak with trade dominated by portfolio switching between blue chips.								
Russia	RTS	46.24	47.08	48.31	411.81 5/1	46.24 28/9	na	na
Shares weaker as RTS said it was organising new clearing system to raise liquidity.								
Singapore	SES All-S'pore	285.41	284.85	285.90	437.98 19/3	253.20 4/9	3.10	13.60
	Straits Times	930.53	923.92	931.98	1698.75 19/3	805.04 4/9		

THE NASDAQ STOCK MARKET

4 pm close September 28

AMEX PRICES

4 pm close September 28

EASDAQ

STOCK MARKETS

US rate cut hopes calm investors' nerves

WORLD OVERVIEW

Hopes of a US rate cut provided respite for otherwise jittery markets as investors tried to weigh the implications of the new German government, news of another US hedge fund facing losses and a Y2,180bn bankruptcy in Japan, *writes Emiko Terazono*.

Asian markets rallied on heightened expectations that the US Federal Reserve Board's policy-making open market committee, which meets today, will cut the Federal Fund rate.

Hong Kong gained more than 3 per cent while Bangkok rose 2.7 per cent, shrugging off the the collapse of Japan Leasing, the largest bankruptcy yet in Japan. Tokyo gained ground thanks to buying by state-run postal funds.

Leading European bourses, which lost earlier gains on profit-taking, closed higher on late support from the strength in Wall Street. France shrugged off a 7 per cent fall in Castorama Dubois, due to disappointment over its merger with Kingfisher of the UK, to rise 1 per cent along with Spain, while Italy gained 4 per cent.

Germany, which was initially lower on uncertainty over Chancellor-elect Gerhard Schröder and his plans to form a coalition with the Green Party, closed up 2 per cent. International factors were having a greater effect on German share prices, said David Marsh, European strategist at Flemings Research.

But uncertainties over the policies of Mr Shröder's coalition did affect overall sentiment and some individual stocks. Mr Schröder's election victory marked the "return of political risk", said Holger Schmieding, of Merrill Lynch, although it also presented some opportunities.

Utilities were the biggest losers of the day, hit by worries over possible pressure from the Green Party to abandon nuclear power. Mr Marsh said some retail shares, especially DIY chains, could benefit from likely tax reform by the new government.

The markets yesterday were rooting for a 25-basis-point cut in the US. John Llewellyn, global chief economist at Lehman Brothers, said the chance of a rate cut was "better than evens".

The Fed's focus seemed to have shifted from US inflation to US growth, as indicated by comments from Alan Greenspan, Fed chairman, that greater uncertainty and risk aversion may also lead to more cautious spending behaviour.

Risk aversion among investors has increased. Lehman's 90-day risk averseness index shows that investors' willingness to take risks is at the lowest level since the Mexican crisis in early 1995.

Dow surges ahead of Fed rate decision

AMERICAS

US equities surged across the board in early trading amid rising expectations that today's meeting of the Federal open market committee would result in a cut in interest rates, *writes Richard Tomkins in New York*.

In early afternoon trading, the Dow Jones Industrial Average was up 106.84 at 8,135.61 after being ahead more than 130 points during the morning. The Standard & Poor's 500 index was up 11.69 at 1,056.44 and the Nasdaq composite index was 17.35 ahead at 1,760.94.

Analysts are expecting tomorrow's FOMC meeting to result in a cut of at least 25 basis points in the Fed funds target rate, especially after last week's bail-out of the Long-Term Capital Management hedge fund, which shook financial markets world-wide.

Investors also took comfort from calm in international markets and news that Japan's ruling and opposition parties had resolved their main differences over key banking reforms.

Among blue chips, the biggest gainer was McDonald's, which shot ahead $3 or 5 per cent to $60⅛ after the company announced a $3.5bn stock buy-back and said it expected to meet analysts' third-quarter earnings estimates of 69 cents a share. Procter & Gamble was also a strong gainer, adding $2⅜ to $73⅜.

Financials were ahead on hopes of an interest cut. JP Morgan was up $1⅞ at $89⅞, BankAmerica $1⅞ at $64⅛, and Bank One $1⅞ at $46⅞.

DuPont was up $1⅞ at $60⅞ after confirming plans to spin off Conoco, its oil subsidiary. Among technology stocks, America Online was up $4 at $118⅞ after reporting on-target net profits for its fiscal fourth quarter to June.

In toyland, Galoob Toys shot up $3⅜ or 42 per cent to $11⅜ after announcing it had agreed to be taken over by Hasbro for $12 a share in cash. But Hasbro lost $⅝ to $30⅜ after warning that third-quarter profits would be hit by a downturn in orders from Toys R Us.

Reynolds & Reynolds gained $⅞ to $16¼ after the Dayton, Ohio, company said that it had agreed to sell its healthcare systems unit to InfoCure for $50m, comprising $40m in cash and $10m in convertible loan notes.

TORONTO tracked Wall Street higher in early trading. Telecoms improved but banks and golds were mixed. The 300 composite index was up 36.58 at 5,882.30 at noon.

The telecoms sector achieved some of the morning's better gains. BCE put on 70 cents at C$47.90 in good two-way volumes while equipment suppliers Northern Telecom added C$1.50 at C$62.70.

Banks remained unsettled by global hedge fund concerns. Royal Bank of Canada shed 55 cents to C$62.70 but Bank of Nova Scotia added 65 cents at C$25.70.

Golds too were choppy. Barrick hardened 20 cents to C$31.20 but Placer Dome shed 35 cents to C$21.30.

Alcan Aluminium improved 60 cents to C$38.10, helped by positive broker comment. Leading conglomerate Canadian Pacific rose 35 cents to C$34.20.

São Paulo shoots higher

Wall Street's early gains plus talk of a cut for US interest rates got behind Latin American stock markets, sending share prices higher across the board.

SAO PAULO, visibly weak over the past two sessions, shot forward in improving volumes with the benchmark Bovespa index gaining 315 or 4.7 per cent to 754.45 at midsession.

Among leading stocks, Telebrás receipts gained 5.7 per cent to R$90.40 and Eletrobrás improved 6.6 per cent to R$27.50. Petrobrás advanced 4.9 per cent to R$129.

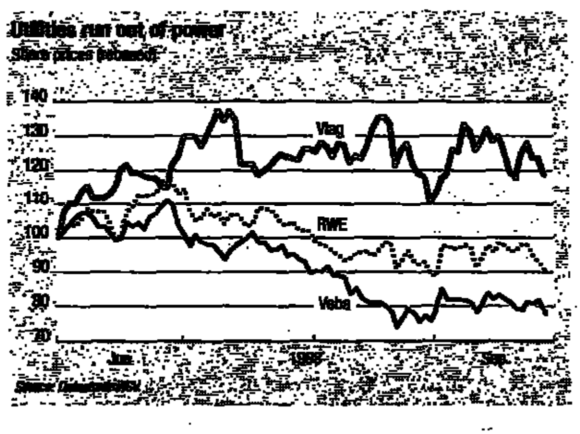
MEXICO CITY pushed ahead 116.44 or 3.1 per cent to 3,820.15 on the IPC index at midsession.

"It's a bet on the Fed. Everyone's talking about a US rate cut this week," said one broker.

CARACAS rose 4.2 per cent at midsession with the IBC index up 144.68 at 3,621.79 in spite of a slightly softer day for international oil prices.

Dax unfazed by Kohl defeat

EUROPE



The **FRANKFURT** bourse took the end of the 16-year Kohl era in its stride.

The Xetra Dax index closed 93.15 or 2 per cent higher at 4,677.56, largely on the back of Wall Street, as local investors awaited details of Chancellor-elect Gerhard Schröder's new centre-left government.

Utilities, however, had a rocky day on concerns that a government including the environmentalist Greens would push for an end to nuclear-generated energy.

Veba, owner of electric utility PreussenElektra, lost DM3.74 to DM92.50 while Viag, parent of Bayernwerk, fell to a low of DM1,155 before recovering to close DM20.30 higher on the day at DM1,248. RWE was DM2.50 lower at DM87.50.

Analysts noted that any new restrictions could hurt profits of power suppliers because nuclear plants provide a third of Germany's supplies.

Motor stocks were among the day's winners, helped by an improved dollar and ahead of the international Paris motor show, which opens to the press today and the public on Thursday. BMW rose DM99 to DM1,150 and VW DM10 at DM125. Against the trend, Daimler eased 85pfg to DM145.

The banking sector was also in focus as Hypo-Vereinsbank dismissed rumours that it was planning to merge with Dresdner Bank and Allianz. HypoVereinsbank rose DM3 to DM138, Dresdner put on DM2.01 to DM67.70 and Allianz jumped DM14.40 to DM526.90.

SGL Carbon soared DM22.50 to DM120.50 as CS First Boston raised its recommendation and year 2000 earnings forecast for the carbon and graphite group and set a near-term price target of DM160.

CSFB said the upgrade was based on the expectedly positive news for the sector coming from UCAR International of the US, the largest manufacturer of graphite electrodes.

Preference shares in Wella lost DM70 to DM1,330 after the haircare and cosmetics group said it expected 1998 sales to be 5 per cent lower than forecast as a result of the global financial crisis.

PARIS ended a volatile session with moderate gains. The CAC 40 index, which sank to 3,246.54 at one stage, finished 27.05 better at 3,337.64 in heavy turnover of FFr14.2bn.

France Telecom came in for an early rush of selling as talk of a share sale ran round the market. The rumours centred on an offer of a further tranche of government-owned shares in the telecoms group.

Later in the day, dealers were able to confirm that leading banks were carrying out a pre-placing of shares and convertible bonds. Best bets in Paris pointed to a price of FFr350 for the direct equity content of the float.

The shares, which touched a low of FFr347.4, rallied during the afternoon to close off FFr7 at FFr363 in heavy turnover of FFr1.2bn.

Motor stocks gained ahead of the Paris motor show. Renault added FFr17 at FFr250 and Peugeot FFr19 at FFr989. Among components groups, Valeo gained FFr17.90 to FFr405.

Usinor, a notably weak market lately, stormed higher as brokers turned bullish on cyclical shares ahead of a possible cut for US interest rates. The steel leader jumped FFr11.40 or 19.3 per cent to FFr70.50.

AMSTERDAM rose 21.57 to 969.39 on the AEX following a rally for the heavyweight financials and a bounce for Philips.

Financials, hit lately by worries about the knock-on effects of banking sector exposure to global hedge funds, climbed strongly. Aegon gained Fl 8.90 to Fl 159.60 and ING Fl 3.20 at Fl 93.80. Abn-Amro rose 80 cents to Fl 34.70.

Philips rose Fl 4 to Fl 101 following an upgrade by Lehman Brothers. The broker cut its earnings forecasts for this year by 13 per cent but – spurred by the recent relative weakness for the shares – raised its recommendation from 3-neutral to 2-outperform.

KLM fell Fl 1 to Fl 54.20 as the sellers hit home hard after Friday's stern profits warning from the airline.

MILAN featured a sharp rise in BCI as a battle between two groups of rival shareholders intensified ahead of today's board meeting.

Analysts said last week's news that two German banks, Deutsche Bank and Commerzbank, had become two of the largest shareholders in Italy's fourth largest bank placed a possible merger with Banca di Roma in doubt, and could pave the way for a BCI merger with IMI-San Paolo instead.

BCI, suspended limit-up at one stage, resumed trade after the bourse widened the stock's trading band to 15 per cent. The shares closed L1,169 higher at L10,453 while IMI jumped L2,393 to L23,935 and San Paolo put on L2,444 to L23,016.

Telecom Italia ended L578 higher at L11,923 after the telephone company presented its strategic plan to investors at the weekend and Morgan Stanley confirmed the share as a strong buy. Cellular phone unit Tim put on L441 to L9,985.

The real-time Mibtel index put on 742 or 4 per cent to close at its high for the day of 10,297.

MADRID edged higher helped by a further rally for leading banks. BBV gained Pta45 at Pta1,680. The bargain hunters latched on to building stocks. Dragados gained Pta160 to Pta3,800 and FCC Pta260 to Pta6,570. The general index finished 8.22 higher at 715.54.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

Bonds help Johannesburg

SOUTH AFRICA

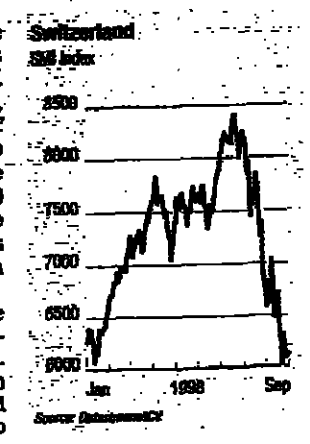
Shares in Johannesburg pushed higher, buoyed by a firm bond market and a steadier day for the rand. The all share index ended up 3 per cent at 5,293.4.

Financials gained ground but industrials supplied most of the drive. Industrials gained 4.3 per cent to 6,043.4 while financials added 3.4 per cent at 7,908.1

Golds ran into profit-taking after Friday's strong run. The sector index came off 0.4 per cent to 1,048.9.

MARKET FOCUS

Swisscom sale key to recovery



The Swiss stock market, one of the world's top performers in 1997, is licking its wounds. When it peaked in late July, the Swiss Market Index of blue-chip stocks was up more than a third since the start of the year at over 8,400 and rapidly narrowing the gap with the Dow Jones Industrial Average less than 1,000 points higher.

At the end of 1996, the Dow had been nearly two-thirds higher than the SMI. By the end of 1997, the gap had closed to 26 per cent and by late July it had shrunk to 10 per cent.

Since then, the SMI has fallen more than a quarter, the gap with the Dow has more than doubled to over 1,900 points, and talk of the SMI overhauling the Dow in points terms has again evaporated.

Bank Julius Baer's September market view notes the correction was not unexpected considering Switzerland had been enjoying its second best bull run since 1925 with a performance, including reinvestment of dividends, of 213 per cent.

Nevertheless, the setback has been savage. In late July all but one of the SMI stocks were showing gains, led by UBS and Credit Suisse, Switzerland's top two bank stocks, both up well over 50 per cent. At the end of last week Credit Suisse had more than halved in two months and UBS shares were down 46 per cent.

Mirko Sangiorgio, head of research at Geneva private bankers Pictet & Cie, has trimmed back his six-month forecast for the SMI from 8,250 to 7,000, which compares with its current level of close to 6,000. He believes the market is close to bottoming out after its recent sell-off and is selling on 17.1 times next year's earnings.

While attention is focused on the problems of the Swiss banks, they are overshadowed by Novartis, Roche and Nestlé which together account for 52 per cent of the SMI. Nestlé is up more than a quarter this year – the best-performing stock in the SMI – and Roche, after years of under-performance, has started to shine again.

Simon Marshall-Lockyer, of BT Alex Brown International, is optimistic that the worst is over and Switzerland can again start to outperform its European peers.

He estimates Swiss earnings will grow 14 per cent in 1999, slightly ahead of the European average, and the market is selling on 16 times 1999 earnings compared with 18 times for France and close to 19 times for Germany.

Next weekend should shed light on whether Swiss and international investors share this confidence when the government prices Swisscom, Switzerland's biggest privatisation and Europe's biggest IPO so far this year.

The initial price range of SFr330 to SFr410 implies an estimated 1999 price earnings multiple of between 13 and 16 times and a prospective dividend yield of between 3.3 per cent and 2.7 per cent, comparable with Swiss government bonds.

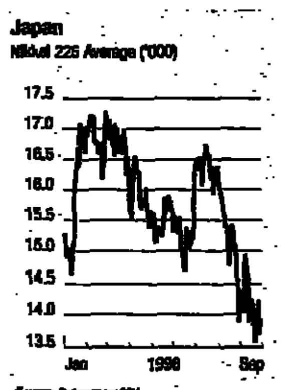
If the Swisscom issue flops, then the problems facing Switzerland's stock market will be more serious than the recent setback implies.

William Hall

Pension fund buying lifts Tokyo

ASIA PACIFIC

Pension fund buying helped to lift TOKYO amid a wave of mergers and bankruptcies in the financial sector, *writes Alexandra Harney*.



The Nikkei 225 Average gained 185.53 or 1.4 per cent to 13,909.37, having moved between 13,687.03 and 14,121.47 during the day. Volume was moderate at about 377m shares.

However, analysts cautioned that there may have been government intervention. The collapse of Japan Leasing Corporation, an affiliate of the ailing Long Term Credit Bank with more than Y2,000bn in liabilities, pushed bank shares lower. Analysts said the government engaged in "price keeping operations" to bolster the market.

Banks fell 0.3 per cent overall, while oil shares gained 2.6 per cent, and rubber companies posted a 7 per cent improvement.

Shares in LTCB sank Y10 to Y14 while the Bank of Tokyo Mitsubishi lost Y19 to Y958. Fuji Bank was down Y11 to Y330.

Mitsubishi Trust plunged Y79 to Y577 after falling to a low of Y557. Sumitomo Trust, which is in merger talks with LTCB, lost Y23 to Y280, an all-time low.

Shares in Tokai Bank, which announced a merger yesterday with Asahi Bank, gained Y5 to Y536. Asahi was up Y2 to Y387.

Bad corporate news weighed on blue-chip stocks. Nissho Iwai, the trading company that last week warned of heavy losses, fell Y21 to Y99. Toshiba, the electronics group, lost Y12 to Y471. NKK, the steel group, was unchanged at Y72.

The Topix index of all first section stocks was up 1.3 per cent at 1,063.52. In Osaka, the OSE was up 218 at 14,761.

SYDNEY moved higher in moderate volumes and with most interest centred on the golds sector. Brokers said activity was likely to stay constrained until after Saturday's national election.

Lihir Gold jumped 199 cents or 9.1 per cent to A$2.27 and Sons of Gwalia gained 36 cents to A$4.85. The All Ordinaries index added 28.2 at 2,591.6.

HONG KONG was propped up by hopes of an imminent US interest rate cut and the Hang Seng index gained 244.43 or 3.2 per cent to 7,946.04 in turnover that picked up to HK$5.2bn from Friday's HK$4.4bn.

Analysts noted, however, that window-dressing and short-covering ahead of today's index futures expiry injected additional optimism.

Talk of a Chinese interest rate cut continued to lend support. But China plays underperformed with some investors cashing in profits after recent hefty gains.

Index heavyweight HSBC Holdings tugged the market higher, rising HK$5.50 to HK$145 as short-covering gave the share price a boost.

Cheung Kong climbed HK$1.10 to HK$35.50 after announcing it had sold 90 per cent of the Paramount low-density residential development in Tai Po on the first day of sales.

BANGKOK rallied on hopes of declines in domestic interest rates and the SET index rose 6.60 or 2.7 per cent to 255.53.

Local investors sought shares, dominating activity, while selective buying by foreign funds also lifted the market.

A rush to buy industrials among domestic investors lifted stocks regarded as having strong fundamentals. National Petrochemical rose Bt3.75 to Bt16.50, Advanced Info Services Bt12 to Bt218 and Grammy Bt21 to Bt159.

MANILA saw a boost on speculation of a takeover bid for Philippine Long Distance Telephone, and the composite index rose 15.04 or 1.2 per cent to 1,230.50.

PLDT accounted for almost half the activity, rising 30 pesos to 895 pesos. Reports naming Hong Kong's First Pacific and the American International Group as possible bidders prompted a rush of buying.